

**DEPARTMENT OF THE NAVY  
BUREAU OF NAVAL PERSONNEL  
5720 INTEGRITY DRIVE  
MILLINGTON TN 38055-0000**

**IN REPLY REFER TO**  
BUPERSINST 7510.1A  
PERS-65  
7 Mar 2001

BUPERS INSTRUCTION 7510.1A

From: Chief of Naval Personnel

Subj: LOCAL FISCAL OVERSIGHT AND REVIEWS OF NONAPPROPRIATED  
FUND INSTRUMENTALITIES (NAFIS)

Ref: (a) OPNAVINST 1700.7D  
(b) SECNAVINST 5200.35D  
(c) OPNAVINST 5000.52A  
(d) SECNAVINST 7510.7E  
(e) DOD 5500.77R of 30 Aug 93  
(f) NAVCOMPT Memo of 13 Jan 94 Subj: Department of the  
Navy Policy on Nonappropriated Fund Fiduciary  
Responsibility (NOTAL)

Encl: (1) Local Fiscal Oversight and Reviews of MWR Fund  
NAFIs Guidance Manual  
(2) Common MWR Findings  
(3) Standards of Conduct and Government Ethics Sample  
Compliance Statement

1. Purpose. To provide naval installations with a revised program for fiscal oversight and review of Navy Morale, Welfare and Recreation (MWR) fund NAFIs for which Navy Personnel Command (NAVPERSCOM) (PERS-65) is program manager. This instruction is a complete revision and should be reviewed in its entirety.

2. Cancellation. BUPERSINST 7510.1.

3. Policy. Fiscal oversight and reviews of NAFIs by local activities shall be conducted following guidance provided in enclosure (1).

4. Information. Reference (a) designated the program manager for Navy MWR programs as responsible for establishing and issuing appropriate procedures and guidance for fiscal oversight and review of NAFIs supporting MWR activities. NAVPERSCOM (PERS-65) functions in this capacity for all Navy MWR program elements.

5. Action. Commanding officers (COs) shall

a. ensure availability of enclosure (1) to all personnel assigned to perform fiscal oversight and reviews of NAFIs defined in paragraph 4 of enclosure (1).

b. ensure that all NAFIs supporting Navy MWR programs for their activities are reviewed, audited/evaluated following the guidance provided in enclosure (1). Effect appropriate corrective action concerning findings and results of fiscal oversight reviews until all recommended action is complete. Maintain records of completed and ongoing efforts to implement corrective actions recommended in NAVPERSCOM (PERS-65) fiscal oversight and certified public accounting (CPA) firm reports. Provide reports of these efforts to NAVPERSCOM (PERS-65) and Echelon 2 commands for information and use in follow-up reviews.

c. use civilian or military personnel trained in conducting fiscal oversight and reviews of NAFI activities. This may be done by using local internal audit staff, command evaluation and review staff, or other comparable staff; contracting with CPAs; using a separate audit board; or performing management control reviews as discussed in references (b) and (c). To supplement local efforts, commands may request an assist visit from NAVPERSCOM (PERS-65). Refer to reference (d) whenever contracting with CPA firms.

d. use appropriated funds (APF)/personnel to support NAFI audits, when considered necessary, and not prohibited by law or regulation. When groups of APF and NAF activities are operating as an entity, (e.g. the single MWR fund or installation MWR fund), non-reimbursable use of APF/personnel is authorized.

e. refer to enclosure (2) to focus on deficiencies in internal control common to several activities as reported by CPA firm under contract to NAVPERSCOM (PERS-65) and NAVPERSCOM (PERS-65E).

f. refer to reference (e) for minimal standards and rules of conduct required of all Department of the Navy (DON) personnel, and also guidance on government ethics, fund raising, post-government employment, political activities and related matters. COs should ensure compliance by having all key MWR fund managers and employees, particularly those involved in the procurement and disbursements process, complete a compliance statement, as shown in enclosure (3). Key MWR fund managers

would normally include MWR director, recreation director, club managers, and business office manager.

g. refer to reference (f) for relevant information pertaining to DON policy with respect to NAF fiduciary responsibility. This policy requires that should any unauthorized use of NAF occur, a report must be submitted to NAVCOMPT through the chain-of-command.

## 6. Forms and Reports.

a. Following forms are available from Naval Inventory Control Point using requisition procedures contained in CD-ROM, NAVSUP PUB 600 (NLL), Navy Stock List Publications and Forms:

NAVCOMPT 2211 (Rev. 3-72), Daily Activity Record (DAR),  
S/N 0104-LF-706-5200.

NAVCOMPT 2215(Rev. 3-72), Inventory Record,  
S/N 0104-LF-706-5400.

NAVCOMPT 742 (Rev. 7-74) Property and Depreciation Record  
S/N 0104-LF-700-7430.

These forms are also available for ordering by accessing the Internet at <http://forms.daps.mil/order/> or by ordering through the Defense Automated Printing Service, Building 4/D, 700 Robbins Avenue, Philadelphia, PA 19111-5094, phone number (215) 697-2981/2982.

b. Following forms are available from U.S. Treasury, Internal Revenue Service (IRS) by calling 1-800-TAX-FORM (1-800-829-3676). They can also be accessed/ordered using the IRS Internet Web Site at: <http://www.irs.ustreas.gov/forms>.

Form 941, Employers Quarterly Tax Return.

Form 1096, Annual Summary and Transmittal of U.S Information Returns.

Form 1099-MISC, Miscellaneous Income.

Form W-2G, Certain Gambling Winnings.

Note: IRS usually revises these forms annually.

c. Reporting procedures should conform to reference (a) and the supplementary guidance provided in enclosure (1). The reporting requirements contained in this instruction are exempt per SECNAVINST 5214.2B.

G. L. HOEWING  
Rear Admiral, U.S. Navy  
Deputy Chief of Naval Personnel

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BUPERSINST 7510.1A  
7 Mar 2001

**LOCAL FISCAL OVERSIGHT AND  
REVIEWS OF MWR FUND, NAFIS  
GUIDANCE MANUAL**

Enclosure (1)

DEPARTMENT OF THE NAVY  
NAVY PERSONNEL COMMAND  
LOCAL FISCAL OVERSIGHT AND REVIEWS OF NAFIS

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## INTRODUCTION

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## INTRODUCTION

1. Purpose. To provide guidance to local activities in the performance of fiscal oversight and related reviews (hereafter called reviews) of NAFIs supporting Navy Morale, Welfare and Recreation (MWR) activities as defined in paragraph 4 and as stated in reference (a), para. 5c(2)(c).

2. Definition. Nonappropriated funds (NAFs) are monies derived from sources other than Congressional appropriations, primarily from the sale of goods and services to DOD military and civilian personnel and their dependents and used to support or provide essential MWR, and certain religious and educational programs. They are government funds entitled to the same protection as funds of the U.S. Treasury.

3. Administrative Control of Funds. MWR activities identified in paragraph 4 are subject to all laws, rules, and regulations established for the control of NAFs. Such funds will not be donated to any individual, firm, group or organization, charitable or otherwise, except for the welfare and recreation of military personnel and their dependents and authorized civilian employees.

4. Application. Navy activities covered under this instruction are

- a. MWR funds at military activities.
- b. civilian MWR funds at military activities.

This instruction may also be used to review private organizations authorized by the commanding officer (CO), or other Navy MWR activities not under the program management cognizance of NAVPERSCOM (PERS-65) for which specific review instructions have not been provided by cognizant program managers.

## 5. Fiscal Oversight and Review of MWR NAFIs

a. Local fiscal oversight of MWR NAFIs identified in paragraph 4 is a CO responsibility as described in paragraph 7. The frequency of these reviews will be per the requirements stated in paragraph 10.

b. To supplement the local efforts, NAVPERSCOM (PERS-65E) may perform fiscal oversight reviews of these activities, including an evaluation of reports prepared by personnel assigned to perform local fiscal oversight and review. NAVPERSCOM (PERS-65E) is also responsible for follow-up to ensure corrective action and recommendations for improvement are implemented for recommendations by NAVPERSCOM (PERS-65E) staff and by the certified public accounting (CPA) firm under contract to NAVPERSCOM (PERS-65).

6. Objectives. The review is to provide local management at all levels with an independent, unbiased review and constructive evaluation of the effectiveness and efficiency with which managerial fiscal responsibilities are being fulfilled. Specific objectives are to

a. determine that management controls over NAFI resources are adequate in concept and effective in application.

b. determine the degree of compliance with established policies, principles, and procedures.

c. verify the existence of assets.

d. determine whether the resources are managed and utilized economically and efficiently, desired results are being achieved and lower cost alternatives have been considered.

e. verify and evaluate the reliability of the accounting and reporting system.

f. objectively report findings and recommendations to management and command.

g. follow-up on recommendations and evaluate results.

h. Assist management in promoting the efficient attainment of the activity's fiscal objectives.

7. Responsibilities of COs

a. The conduct and adequacy of local fiscal oversight and review, and corrective actions resulting therefrom, is the responsibility of COs. Fiscal oversight and reviews may be performed by using local internal audit staff, command evaluation and review or other comparable staff; contracting with certified public accountants; using a separate audit board; or by performing management control reviews as discussed in references (b) and (c). To supplement local fiscal oversight efforts, commands may request an assist visit from NAVPERSCOM (PERS-65) on a time available basis. Refer to reference (d) and paragraph 9 of this enclosure whenever contracting with CPAs for auditing services. Refer to enclosure (3) when reviewing for compliance with the Department of the Navy (DON) standards of conduct and government ethics.

b. Recommendations made by fiscal oversight and review staffs are subject to concurrence or non-concurrence by the CO. Management should give prompt consideration to approved recommendations and forward a written response of corrective action taken or planned to the CO.

c. CO is responsible for ensuring that appropriate corrective action is effected to correct findings and implement recommendations of fiscal oversight reviews until all required action is completed. Reporting the status of open and completed actions in response to recommendations by NAVPERSCOM (PERS-65) and the CPA firm under contract to NAVPERSCOM is also a responsibility of the CO and Echelon 2 and 3 commanders, as appropriate. Records of local efforts to implement the recommendations must be maintained on file and made available for follow-up inspection by NAVPERSCOM or the Echelon 2/3 command.

8. Responsibilities of Personnel Assigned to Conduct Fiscal Oversight Reviews

a. Local activities are responsible for examination of the operations, assets and liabilities from a management perspective for the purpose of determining how well the manager is achieving the assigned mission, while adhering to a fiduciary responsibility of controlling costs and protecting assets from unauthorized use per reference (f). If management controls and accounting systems are operating effectively, reliance generally

can be placed on the financial information reported. Local activities conduct reviews per the procedures contained in this instruction and report the results to management and command.

b. Command evaluation program staff and audit board personnel assigned to review NAFIs are encouraged to attend the NAFI Fiscal Oversight and Internal Controls Review training course conducted by NAVPERSCOM (PERS-654).

#### 9. Contracting for Auditing Services

a. COs should arrange to send copies of all proposed and awarded contracts for auditing services to Auditor General of the Navy, Naval Audit Service (NAVAUDSVC), CPA Contract Review Office as required by reference (d). NAVAUDSVC has responsibility for evaluating contracts awarded by NAF as well as APF funds for auditing services in the Navy, which was implemented by paragraph 19 of reference (d).

b. An informational copy of all proposed and awarded contracts for auditing services should be sent to Chief of Naval Operations (CNO) (N09B4).

#### 10. Annual Plan

a. The local activity should prepare a schedule of reviews planned for NAFIs at the activity. CO is responsible for reviewing and approving the schedule within 30 days of the beginning of each new fiscal year. The schedule should include a timetable for reviewing vulnerable functions of each NAFI activity, preferably on an annual basis. Examples of functions that have been found to be vulnerable and should be considered for inclusion in the annual schedule are provided as Common MWR Findings in enclosure (3). Such reviews should be scheduled more frequently should unsatisfactory conditions exist. In addition, the local activity should perform follow-up evaluations of findings and recommendations reported by NAVPERSCOM (PERS-65E) staff and the CPA firm under contract to NAVPERSCOM (PERS-65) to ensure that recommendations have been properly implemented.

b. Certain functions have been identified as highly vulnerable to fraud, waste and abuse (see enclosure (3) for examples). These functions should normally be reviewed annually to determine the latest status of their vulnerability to fraud,

waste and abuse for inclusion in the annual schedule, using the following sections of this instruction/the applicable sections of the re-inspection checklist for fiscal oversight follow-up program provided in appendix A to enclosure (2).

- Part A, section 1 - Cash Funds and Receipts
- Part A, section 3 - Sales
- Part B, section 5 - Procurement, Receiving and Accounts Payable
- Part B, section 6 - Disbursements
- Part C, section 7 - Payroll
- Part D, section 8 - Merchandise and Consumable Inventory
- Part D, section 9 - Fixed Assets Inventory

Personnel assigned to review NAFI activities should be used to selectively observe and independently validate the 30 September physical inventories of merchandise and consumable inventories, and fixed assets. They should also test the computation of inventory adjustments and the inventory records. Signatures and position titles of the inventory participants, including the independent observers, should be documented in the inventory records to validate each inventory. Inventories should be tested and a complete verification performed upon relief of the fund custodian or treasurer.

#### 11. How to Use this Instruction

a. People assigned to review NAFIs should become acquainted with the fund before starting through

(1) discussions with local fund management and key personnel concerning what goods and services are provided to patrons, pricing policies, operating hours, and internal controls; and

(2) review of non-financial records, such as audit and review reports, advisory group minutes, recreation council and committee minutes, etc.

b. Copies of authorizations, operating policies, organization charts, and financial plans should be obtained. They should also obtain a list of all employees (military and civilian), positions they fill, and pay rates and file them with the "Permanent" working papers as explained in subparagraph 11.j.

c. Since much of this instruction is written for general use in reviewing MWR fund activities, some portions may not be entirely appropriate for every situation. People assigned to review NAFIs should modify or add to the sections whenever local conditions require such changes. The reason for modification or addition should be explained and included in the working papers. Any modification or addition should be consistent with the responsibility to perform the work in a manner, which achieves the objectives stated in paragraph 6.

d. Priorities are indicated in parenthesis, e.g., (1), (2), and (3), in the procedures sections for each function to help the local command evaluation and review staffs, internal audit offices and audit boards allocate their time more efficiently to the areas of importance. In essence, a priority (1) section would normally be more important to review than a priority (2) section. These priorities are indicated adjacent to each procedure heading in enclosure (1).

e. Responses to questions on internal control should be supported by explanations and evidence of verification. If there is no evidence to support a response, the question should remain unanswered. This does not preclude having management prepare a response to the internal control questionnaire; however, if this is done, management's completed questionnaire will be considered to be a record. The manager should be encouraged to sign the questionnaire section that applies to his or her responsibility.

f. Internal control questionnaire is used to satisfy the objective stated in each section by providing a systematic routine, which enables a person to quickly review a segment of an activity for the purpose of identifying a weakness in a management control. For example, cashiers having access to cash register totals would be a weakness in control.

g. Testing the overall system of internal controls requires that documents and accounts showing the execution of transactions be reviewed. The person conducting the review should determine if transactions are executed and recorded in a manner consistent with prescribed policies. An evaluation should be made as to adequacy of safeguards in place to protect assets. A comparison should be made between recorded balances in asset accounts and physical existence of assets. Delegation

(and segregation) of duties and responsibilities should be evaluated to determine if any material weakness exists. The internal control questionnaire is designed to assist people conducting reviews, and serves as a form of quality control for the command evaluation function, which is subject to oversight review. If internal controls are intact, a "yes" answer would normally indicate such, unless specifically stated otherwise.

h. "No" answers generally indicate inadequate controls and require further examination to determine the seriousness of losses or misstatements, which could conceivably result from this weakness.

i. Each section contains a series of steps, which describe the work to be done, and are provided to assist the people conducting the review in accomplishing the review.

j. Working papers are the evidence of the review work. A separate set of working papers should be established for each NAF activity. "Permanent" working papers are those that are required for future reviews, such as policies, organization charts, mission and function statements, staffing, and authorization letters. The "Current" file contains the working papers and supporting documents for each year's review. These should be retained at least 3 years following each review and should be available for subsequent review by NAVPERSCOM (PERS-65E), command inspectors and by NAVAUDSVC, as appropriate and authorized by DOD and Navy regulations.

k. Working papers should be prepared to document deficiencies or weaknesses in the internal controls for each fund reviewed. A working paper should generally be prepared to document each deficiency or internal control weakness found and generally will support findings pertaining to each "No" answer on the internal control questionnaire. Space in the margin next to each questionnaire step should be used to cross-reference the finding to the supporting working paper. Working papers should include the name of the fund reviewed, test performed, period covered by the test, date of preparation and preparer's signature for initials. All working papers should also show, in a brief narrative format, source of information used to perform the test, purpose of the test, and conclusions reached as a result of the test.

1. If completed working papers contain any information requiring security measures under the Privacy Act of 1974, they should be stored in a locked cabinet or room when not in use, and should be labeled to show if security measures are required. Examples of such information would include social security numbers, personnel listings that show home addresses or telephone numbers, and so forth.

12. Reports. Reports covering results of reviews should be prepared following guidance provided in Module 10 of the NAFI Fiscal Oversight and Internal Controls Review training course referenced in paragraph 8 above. Reports should contain sections describing objectives of the review, scope of activities and functional areas reviewed, discussion of findings, a recommendation corresponding to each finding and policy or other accepted reference source to support each recommendation. Significant positive control strengths and monetary benefits opportunities should also be reported for fund management and command information. Reference sources are provided for internal control questions to present guidance for local activity's civilian and military people assigned to the review.

13. Materiality. Although the term "Materiality" is difficult to define, people assigned to conduct reviews should recognize its importance if the review is to be efficient, effective, and helpful to the CO and activity manager. While materiality is discussed most frequently in terms of dollars, it should not be considered in these terms alone. Hard rules cannot be prescribed to tell which dollar amounts or levels of activity accomplishment are material or non-material. Each situation should be judged in the context of the fund's total operation, and the impact of the dollar and operational disclosures will have on the fund's performance. Affirmative answers to the following questions should help the person performing the review to judge the materiality of the findings:

a. Are the findings important in terms of cost, performance, or other effect?

b. Does the finding identify fraud, waste, or significant improprieties and is the condition widespread?

c. Are people in a managerial capacity directly responsible for the deficiency?



d. Can a recommendation be made for corrective or preventive action?

e. Will the finding and recommendation provide constructive guidance for future operations?

f. Matters judged to be non-material, that is those that do not significantly affect the operation, should be omitted from the report since their inclusion would tend to demean the report. The person conducting the review should discuss non-material items with appropriate levels of activity management to obtain improved performance, although such items are not included in the final report. They should be provided to the CO or activity manager in an informal memo or management letter to be retained on file as indicators for possible review the next time the activity is reviewed.

14. Directives. Personnel assigned to conduct reviews should establish and maintain a current, ready reference library for use by personnel assigned to review MWR activities. Copies of the following directives should be on file in the activity's library and available for check-out:

<u>Document</u>	<u>Subject</u>
BUPERS RAMCAS USER HANDBOOK	RECREATION AND MESS CENTRAL ACCOUNTING SYSTEM (RAMCAS) ACCOUNTING HANDBOOK
BUPERSINST 1700.23	NAVY INFORMATION, TICKET AND TRAVEL (ITT) PROGRAMS
BUPERSINST 1710.11B	NAVY RECREATION PROGRAM OPERATIONAL POLICIES
BUPERSINST 1710.13A	NAVY CLUB FOOD, BEVERAGE, AND ENTERTAINMENT OPERATIONS
BUPERSINST 5300.10	NAF PERSONNEL MANUAL
BUPERSINST 7043.1B	PROCUREMENT POLICY FOR BUREAU OF NAVAL PERSONNEL NON- APPROPRIATED FUND ACTIVITIES

BUPERSINST 7510.1A  
7 Mar 2001

DOD 1015.8	DOD CIVILIAN EMPLOYEE MWR ACTIVITIES AND SUPPORTING NAFIS
DOD 5500.7-R	JOINT ETHICS REGULATIONS
DOD 7000.14-R	FINANCIAL MANAGEMENT REGULATION, VOLUME 13, NONAPPROPRIATED FUNDS POLICY AND PROCEDURES
OPNAVINST 1700.7D	RESPONSIBILITY FOR MORALE, WELFARE AND RECREATION (MWR) PROGRAMS IN THE NAVY
OPNAVINST 5000.52A	COMMAND EVALUATION PROGRAM
OPNAVINST 5200.24A	AUDIT DECISION AND FOLLOW-UP
SECNAVINST 5200.34D	MANAGEMENT OF AUDIT DECISION AND FOLLOW-UP FUNCTIONS
SECNAVINST 5200.35D	DEPARTMENT OF THE NAVY MANAGEMENT CONTROL PROGRAM
SECNAVINST 5300.22C	NAVY AND MARINE CORPS PERSONNEL POLICY MANUAL FOR NONAPPROPRIATED FUND INSTRUMENTALITIES
SECNAVINST 5430.92A	ASSIGNMENT OF RESPONSIBILITIES TO COUNTERACT FRAUD, WASTE, AND RELATED IMPROPRIETIES WITHIN THE DEPARTMENT OF THE NAVY
SECNAVINST 7510.7E	DEPARTMENT OF THE NAVY INTERNAL AUDIT

**PART A**  
**THE REVENUE CYCLE**

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Section 1. CASH FUNDS AND RECEIPTS

1.1. Objectives. The purposes of reviewing cash are to

- a. determine whether the internal controls within an activity are adequate and functioning;
- b. verify whether all funds (change and petty cash funds and undeposited receipts) are accounted for properly; and
- c. ascertain whether all receipts are deposited to the appropriate bank account intact on a timely basis. This objective is achieved by making periodic surprise cash counts and completing section 1 of this instruction. The frequency of surprise cash counts is determined based on the significance of previously found cash variances and indicated control weaknesses. Cash sales review procedures are described in section 3.

1.2. Procedures. **(Priority (1))** It is essential that the review start with establishing physical control over all cash and cash items on hand (undeposited receipts, change funds, petty cash funds, and charge sales). Cash counts must be made in the presence of the individual accountable for the funds, and recorded on a locally designed or procured cash count sheet. Immediately upon completion obtain the signature of the custodian acknowledging the return of all cash and cash items on the cash count sheet.

a. All checks found in any fund shall either be immediately deposited in the bank under the supervision of the person conducting the review; or listed for later verification that they were not returned. These steps are necessary to establish the validity of checks in the possession of cashiers.

b. All funds and receipts should be counted and reconciled with the book values and the amount authorized at least quarterly. The count should be of a surprise in nature. All differences should be investigated to the satisfaction of the person responsible for performing the review.

1.21. Undeposited Receipts. **(Priority (1))** All cash and cash items should be recorded as they are being counted. List all checks recording the drawer, check date, amount, and bank transit number. Review all checks for date drawn, payee,

drawer, and amount. Investigate all checks representing large amounts or unusual drawers, and all checks payable to cash. Review the items to confirm that the drawer has recorded the sponsor's name, rank, social security number, military organization, and duty telephone number on the face of the check. In some instances, this information will be preprinted on the face of the check. Reconcile checks, currency, credit card, and charge sales to the NAVCOMPT 2211, Daily Activity Record (DAR), cash register tapes/cash receipt vouchers. Record the details and investigate all discrepancies.

1.22. Change Funds. **(Priority (1))** Change funds should always be authorized in writing by the CO for a fixed amount. The person performing the review should verify whether the authorization conforms to these requirements. All change funds, which have not been issued to cashiers, should be counted to verify whether the money on hand and signed receipts agree with the amount authorized. The amount and reason for any differences should be recorded. In some instances portions of the change fund may have been issued (or subcustodied) to cashiers for use in conducting business. When this occurs, the person conducting the review should perform a physical cash count. Cash register readings need to be taken. The total amount of cash counted should be equal to the amount of the change fund issued to the cashier, plus the total value of transactions recorded by the cash register. A separate DAR should be prepared to show all business conducted prior to the cash count, and the cash register tape should be retained by the activity to support the DAR. Cash counts should be conducted in a manner that causes minimal disruption to business and customer service.

1.23. Petty Cash. **(Priority (2))** Each petty cash fund must be verified whether the authorization conforms to these requirements. The total of all cash on hand plus the total of paid vouchers should equal the amount authorized. Should the total of all petty cash funds counted not agree with the amount authorized and recorded in the Detail General Ledger, the amount and reason should be recorded.

a. Examine paid vouchers for conformity with DOD 7000.14-R, volume 13, chapter 3, paragraph 030201. Individual transactions should not exceed \$150 (\$300 for an emergency). The \$150 for individual transaction limitation is waived for payment of bingo prizes.

b. Where improper or irregular items are disclosed at the time of the first count, a later count and reconciliation should be made to determine that subsequent reimbursements have not been used to cover deficiencies.

1.3. Internal Control Questionnaire

1.31 Cash on Hand

Yes      No

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Are cash funds properly safe-guarded from loss and theft?<br>(BUPERSINST 1710.13, para. L 308;<br>DOD 7000.14-R, Vol. 13, App. C,<br>para. C050602, C050603 and 050703;<br>DOD 7000.14-R, Vol. 5, Chap. 3,<br>para. 0303)  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are safe combinations known only<br>to the custodian of the funds within<br>each safe? (BUPERSINST 1710.13,<br>para. 308; DOD 7000.14-R, vol. 5,<br>chap. 3, para. 0303)   | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Is each custodian of funds<br>provided with a safe or a locked<br>compartment within a safe to which<br>only they have access? (BUPERSINST<br>1710.13, para. 308; DOD 7000.14-R,<br>vol.13, app. C, para C050603 and<br>C050605; DOD 7000.14-R, vol. 5,<br>chap. 3, para. 03 | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are safe combinations changed at<br>least upon a change of personnel<br>having access to the safe?<br>(BUPERSINST 1710.13, para. 308;<br>DOD 7000.14-R, vol. 5, chap. 3,<br>para. 0303)  | <input type="checkbox"/> | <input type="checkbox"/> |

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| e. Are all funds kept locked in a safe when not under the personal surveillance of the person charged with their safekeeping? (BUPERSINST 1710.13, para. 308; DOD 7000.14-R, vol. 13, app. C, para. C050603)  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are surprise counts made by activity management of cash receipts, petty cash, and change funds in the custody of each cashier during the cashier's shift, not less frequently than once a quarter? (DOD 7000.14-R, vol. 13, app. C, para. C050604) | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Are the surprise cash count sheets retained by activity management for review? (DOD 7000.14-R, vol. 13, app. C, para. 050604)  | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Are personal funds or securities restricted from being stored (commingled) in custodian safes? (DOD 7000.14-R, vol. 13, app. C, para. C050605; DOD 7000.14-R, vol. 5, chap. 3, para. 0303)   | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.32. <u>Change Funds</u>   |                          |                          |
| a. Are replenishment checks made by checks drawn on the fund's regular checking account and payable to the designated change fund custodian in their name? (DOD 7000.14-R, vol. 13, app. C, para. C050602)  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are the amounts of the change funds reasonable and adequate to satisfy cashiering needs? (authorized funds   |                          |                          |



in excess of needs should be reduced.) (BUPERSINST 1710.13, para. 308; DOD 7000.14-R, vol. 13, app. C, para. C050603)

<u>Yes</u>	<u>No</u>
<input type="checkbox"/>	<input type="checkbox"/>

1.33. Petty Cash

- a. Is the responsibility for each fund vested in one person only? (DOD 7000.14-R, vol. 13, chap. 3, para. 030201B and app. C, para. C050602)
- b. Is the custodian independent of the bookkeeper? (DOD 7000.14-R, vol. 13, chap. 9, para. 0901 and 090202)
- c. Are petty cash vouchers prenumbered sequentially, prepared in ink or indelible pencil, signed by the payee, and approved? (DOD 7000.14-R, vol. 13, chap. 3, para. 030201B and app. C, para. C050602)
- d. Are vouchers and attachments marked or stamped "Paid" with check date and number or other satisfactory manner to preclude reuse? (DOD 7000.14-R, vol. 13, app. C, para. C050602; RAMCAS, Duty VII, Task 3)
- e. Is the cashing of checks or making loans from this fund prohibited? (DOD 7000.14-R, vol. 13, chap. 3, para. 030201B)
- f. Is the use of this fund limited to small purchases not exceeding \$150 which could not be paid by check (wages and entertainers) fees cannot be paid out of the fund)? The \$150

<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

limitation is waived for the payment of bingo prizes. (DOD 7000.14-R, vol. 13, app. C, para. C050602 and C050709)

Yes

No

☐☐

- g. Is the amount of the petty cash fund reasonable and adequate to satisfy the needs of the activity? (authorized funds in excess of needs should be reduced.) (BUPERSINST 1710.13, para. 308; DOD 7000.14-R, vol. 13, chap. 3, para. 030201B)

☐☐

1.34. Undeposited Receipts

- a. Are cash receipts physically safeguarded at all times to minimize their disappearance? (DOD 7000.14-R, vol. 13, app. C, para. C050605, C050702, C050703 and C050704)

☐☐

- b. Does one person alone have the combination to the central drop safe? (BUPERSINST 1710.13, para. 308; DOD 7000.14-R, vol. 5, chap. 3, para. 0303)

☐☐

- c. Are night depositories used for deposits of NAFs and does the safe hold-holding night deposits provide adequate security for funds? (BUPERSINST 1710.13A, para. 308; DOD 7000.14-R, vol. 13, app. C, para. C050605 and C050704)

☐☐

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| d. Are the base security police notified when cash funds (change funds, petty cash funds, and undeposited receipts) in excess of \$10,000 are to be transported? (DOD 7000.14-R, vol. 5, chap. 3, para. 030107D) | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are cash funds in transit safe-guarded as directed by local policy established by command? (DOD 7000.14-R, vol. 5, chap. 3, para. 030107D)  | <input type="checkbox"/> | <input type="checkbox"/> |

## Section 2. CASH IN BANK

2.1. Objectives. The purpose for reviewing cash in the bank is to verify whether

a. daily receipts are deposited intact and in a timely manner to the applicable bank account, and

b. amounts agree with the amounts recorded in the Detail General Ledger. Imprest bank accounts are reviewed to verify both the integrity of the accounts and the accuracy of bank reconciliation's prepared by the activity.

## 2.2. Procedures

2.21. Deposit Bank Account - Local. (Priority (1)) These accounts Recreation and Mess Central Accounting System (RAMCAS) are used for depositing daily receipts and obtaining change. The only withdrawals from these accounts should be made by RAMCAS to transfer all deposits to the concentration bank account. Bank statements for local deposit bank accounts are forwarded by the bank to RAMCAS for reconciliation. Persons conducting reviews should verify that cash receipts are deposited in a timely manner to this account. The review of cash receipts is covered in section 3.

Note: Some activities in overseas areas do not have a local deposit bank account. Those activities make direct deposits to the concentration bank account.

2.22. Concentration Bank Accounts. (Priority (2)) The concentration bank accounts are the accounts in which the funds of all MWR fund activities under the centralized system are maintained. They are managed by NAVPERSCOM (PERS-65). Each activity's share is accounted for separately and reconciled by NAVPERSCOM (PERS-652). The balances are included in the balance sheets sent to the local activity. The local activity draws checks only against its own share of this account for payments of goods and services. On request, NAVPERSCOM (PERS-652) will arrange to forward the canceled checks to the local command evaluation staff via the CO. These checks should be retained pending the review of disbursements, section 6.

2.23 Imprest Bank Accounts. (Priority (1)) If desired by the activity manager and approved in writing by the CO, local

activities may establish imprest bank accounts for payroll, foreign currency, and credit card sales. Authorization for establishment of imprest bank accounts should be verified and a copy of the letter authorizing these accounts should be filed with the permanent working papers. Some types of imprest bank accounts are

a. Payroll Imprest Bank Account. **(Priority (2))** This account is established in the name of the local activity and is used for processing the activity's payroll. Deposits are made to this account by checks drawn against the concentration bank account. Individual payroll checks are drawn against this account using checks supplied by the local bank. The bank will forward the bank statements directly to the activity, which will reconcile the account at the end of each accounting period.

b. Foreign Currency Imprest Bank Account. **(Priority (1))** This account is established in the name of the local activity and used for disbursements in foreign currency, which may include payroll. Deposits are made to this account by checks drawn against the concentration bank account. Activities, which accept foreign currency in daily operations, deposit such receipts in this account. Checks are drawn against this account using checks supplied by the local bank. The bank forwards the bank statements directly to the activity, which should reconcile the account at the end of each accounting period.

c. Credit Card Sales Imprest Account. **(Priority (1))** This account is established in the name of the activity to facilitate the use of commercial credit directly to the local deposit bank account established by RAMCAS. The only withdrawals from this account by the activity should be for deposit to the local deposit bank account. The bank will forward the bank statement directly to the activity, which should reconcile the account at the end of each accounting period. Persons conducting reviews should verify that funds are transferred from this account to the local deposit bank account, preferably daily if volume dictates, but at least weekly. Steps connected with the deposits of sales drafts to this account are covered in section 3.

d. General Review Steps for Imprest Accounts  
**Priority (1))**

(1) Obtain the activity's bank reconciliation, bank statement, canceled checks, and deposit slips.

(2) Examine the bank statement for erasures or changes of any amounts and confirm changes with the bank.

(3) Review the bank reconciliation's prepared by the local activity (if any) for accuracy and completeness.

(4) Examine checks written during one month out of each quarter. Ascertain that there are no missing check numbers, that is, all checks have been sequentially issued or voided. Investigate the reason for any missing checks.

(5) Inspect voided checks to determine if the "signature" space has been removed from the check.

(6) Determine the reason checks remain outstanding 90 days or more. Consider contacting payees to determine why the checks are being held.

(7) When deemed necessary, a sample of canceled checks of the imprest bank account should be reviewed as follows:

(a) Compare name of payee, amount, and date of the check to the disbursement or payroll journal.

(b) Compare endorsements on the check with the name of payee.

(c) Investigate all checks made payable to a bank or activity employee other than regular payroll disbursements.

(d) Investigate double endorsements where the second endorsement is that of a person connected with the activity.

(e) Investigate all payroll checks that are cashed within the issuing activity to determine if they are payable to a bona fide employee for time worked. (Activities are prohibited from cashing payroll checks for their own use).

2.3. Internal Control Questionnaire

Yes      No

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Are deposits made daily, with weekend and holiday receipts deposited on the first business day subsequent to the weekend or holiday? (DOD 7000.14-R, vol. 13, app. c, para. C050605)   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is the amount of each check either recorded on the bank deposit slip or an attached adding machine tape? (DOD 7000.14-R, vol. 13, app. C, para. C050605)   | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are deposits recorded in the general ledger and local memorandum records in agreement with the amounts shown on the Summary? (RAMCAS User Handbook, Duty IX, Task 1)   | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are transmittal envelopes sent to RAMCAS in numerical order without a break in sequence? (RAMCAS User Handbook, Duty III, Task 1)  | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are bank statements of imprest accounts sent directly to and reconciled monthly by an employee whose duties do not include the handling of cash or maintaining the accounts? (DOD 7000.14-R, vol. 13, app. C, para. C050606) | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are dishonored checks collected per the prescribed procedures? (DOD 7000.14-R, vol. 13, app. C, para. C050605; BUPERSINST 7200.2)  | <input type="checkbox"/> | <input type="checkbox"/> |

Section 3. SALES

3.1. Objectives. The primary document for recording sales and receipts transactions is the NAVCOMPT 2211, Daily Activity Record (DAR). The civilian/military experts performing this review should have a thorough knowledge of the built-in control features of this document and the procedures contained in DOD 7000.14-R, volume 13, and the RAMCAS accounting handbook. Sales are reviewed to determine

- a. adequacy of internal controls related to the collection and safeguarding of receipts, and
- b. accuracy of the related accounting data.

3.2. Procedures. **(Priority (1))** The local activity's staff should review the established procedures for collecting and safeguarding cash receipts and recording sales and other income for all departments operated by the activity. Also, determine the adequacy of these procedures and document all deficiencies in the working papers. Examine a sample of DARs and the related supporting documents to verify whether

- a. DARs are properly used and that the internal control system is effective to protect the cash assets of the activity against fraud or error.
- b. DARs are prepared in ink, complete, and mathematically correct.
- c. corrections are made properly and verified.
- d. Cashiers, persons designated to verify cash and charges, and persons designated to read and verify register tapes are properly completing and certifying their assigned sections of the DARs.
- e. The opening and closing cash register readings are correctly entered on the DAR and the opening reading for the day under review is in agreement with the closing reading for the previous shift.



f. The source documents (sales slips, guest checks, bowling score sheets, cash receipt vouchers, private party contracts, etc.) are adequate to substantiate the data entered on the DARS.

g. Cash overages and shortages are recorded properly on the DARS and credited to the proper cash overage or cash shortage account.

h. The accounting data recorded on each of the individual DARS is correct and complete.

i. Review the records to verify whether receipts are deposited in a timely manner.

Note: Receipts will normally be deposited on the first business day following the day of receipt. The accounting data showing the deposit should be forwarded to RAMCAS the same day the deposit is made. All cash receipts are required to be deposited intact; however, refunds to customer for things such as defective goods or malfunctioning vending machines may be made from the petty cash or change fund. Signed receipts should document these disbursements.

j. Subsidiary Records. Where applicable, verify the posting of the accounting data from the Summaries to the subsidiary records/files (cash in bank, accounts receivable and accounts payable, customer deposits, etc.).

3.3. <u>Internal Control Questionnaire</u>	<u>Yes</u>	<u>No</u>
a. Are all fees, charges and sales prices governed by posted standard price lists? (BUPERSINST 1710.13, para. 306 and 324)	<input type="checkbox"/>	<input type="checkbox"/>
b. Are unauthorized discount prices to selected patrons prohibited? (BUPERSINST 1710.13, para. 212g, 306d and 408c)	<input type="checkbox"/>	<input type="checkbox"/>

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| c. Are sales controlled by use of registers? (What happens if there is no cash register or used which are not property of the activity?) | <input type="checkbox"/> | <input type="checkbox"/> |

Note: The presence of unauthorized cash registers is an indication of fraud. Determine who received cash recorded on these registers. (DOD 7000.14-R, vol. 3, app. C, para. C051205)

- |   |                          |                          |
|---|--------------------------|--------------------------|
| d. Where cash registers are not used, is a sales ticket or other authorized automated system in operation? (DOD 7000.14-R, vol. 13, app. C, para. C050702 and C050706)    | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are all sales tickets sequentially prenumbered and controlled? (DOD 7000.14-R, vol. 13, app. C, para. C050702 and C050706)   | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are cash registers read at the end of each work shift by someone other than the cashier? If so, are the machine totals not available to cashiers?                      | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Are register readings compared with the actual receipts and sales tickets? (DOD 7000.14-4, vol. 13, app. C, para. C050704 and C0604F)                                  | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Are the totals shown by cash register or sales slips entered on the DAR by someone other than the cashiers? (DOD 7000.14-R, vol. 13, app. C, para. C050704 and C0604F) | <input type="checkbox"/> | <input type="checkbox"/> |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| i. Are cash overages and shortages shown on the DAR, and separately on the Summary? (RAMCAS User Handbook, section C, accounts 812 and 912)  | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Are cash register overrings approved by a supervisor? (DOD 7000.14-R, vol. 13, app. C, para. C090302c and d)  | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Are unexplained, excessive and repetitive overages and shortages investigated? (DOD 7000.14-R, vol. 13, app. C, para. C051205)  | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Are all incoming checks endorsed immediately "FOR DEPOSIT ONLY" to the account of (Title of the Activity)? (DOD 7000.14-R, vol. 13, app. C, para. C050605)  | <input type="checkbox"/> | <input type="checkbox"/> |
| m. Are unused receipt books controlled by management; issued to and used in sequence by the cashier? (RAMCAS User Handbook, Duty XI, Task 1; BUPERSINST 7010.13A, para. 212)   | <input type="checkbox"/> | <input type="checkbox"/> |
| n. Is the prenumbered sequential use of the cash receipts books checked by someone other than the cashier? (DOD 7000.14-R, vol. 13, app. C, para. C050702; RAMCAS User Handbook, Duty XI, Task 1; BUPERSINST 7010.13, para. 212) | <input type="checkbox"/> | <input type="checkbox"/> |
| o. Are the duties of the cashier entirely separate from the maintenance of the individual patrons' accounts? (DOD 7000.14-R, vol. 13, chap. 9, para. 0901 and 090202, and app. C, para. C050704)                                 | <input type="checkbox"/> | <input type="checkbox"/> |

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| p. Are cash receipts deposited intact? If not, identify and validate the deductions. (DOD 7000.14-R, vol. 13, app. C, para. C050605)  | <input type="checkbox"/> | <input type="checkbox"/> |
| q. Are bank deposits certified by means of deposit slips stamped by the bank? (DOD 7000.14-R, vol. 13, app. C, para. C050605)   | <input type="checkbox"/> | <input type="checkbox"/> |
| r. Are checks returned by the bank received directly by someone other than the cashier or bookkeeper? (DOD 7000.14-R, vol. 13, app. C, para. C050605)   | <input type="checkbox"/> | <input type="checkbox"/> |
| s. Are deposits for the use of equipment (e.g., kegs and taps, camping trailers) recorded in the records and refunded to patrons upon return of the equipment? (RAMCAS User Handbook, section C, account 203) | <input type="checkbox"/> | <input type="checkbox"/> |

### 3.4. Specialty Sales

#### 3.41. Private Party Contracts - Introduction. **(Priority (1))**

Navy clubs are authorized to operate party catering (on base only). No group functions or private parties may be held in the club unless a contract has been signed by the host or party sponsor, reference BUPERSINST 1710.13, para. 208.

#### 3.42. Procedure

a. Obtain the calendar, diary, register or ledger used by the club for booking group functions and private parties. Verify whether a private party contract has been signed for each function/party booked. The final estimate of number of patrons to be served should be required 24 hours in advance, with an allowed variation of not more than 5 percent.

b. Review the special function form or contract in use by the club and determine if pertinent information per BUPERSINST 1710.13, para. 208, is included therein.

c. Examine private party contracts (and applicable mess requisitions) for each scheduled private party and group function for the period under review.

d. Ensure that all party charges are recorded on a prenumbered party contract and all income (food, bar, etc.) from private parties is input by DAR Summary into food and bar on the day the function is actually held.

e. Ordinarily, charges for group functions or private parties should be collected at the time of the function. Cash payment should be made only to an authorized cashier and the transaction must be recorded on that day's DAR. If, however, credit is extended, the party patron should be billed within 5 business days of its conclusion (holidays and weekends excepted) and payroll should be billed within 15 days.

f. A notation should be written on canceled or voided contracts explaining the reason. The accounting department's copies of completed, canceled or voided private party contracts should be filed in numerical sequence.

Bingo - Introduction. **(Priority (2))** Well-regulated bingo is widely accepted as an appropriate incentive to social gatherings on military installations. It should be designed to promote participation. Participation in this activity must be limited to authorized patrons and their bona fide guests. Prizes exceeding \$1,200 (fair market value) received by one patron in one game must be reported to IRS on Form W-2G, Statement for Certain Gambling Winnings.

#### Bingo Cards

a. An employee should be authorized, in writing, to be accountable for bingo cards. Bingo cards should be marked or date stamped to indicate payment has been received. Before a prize is presented to a bingo winner, the card should be checked to ensure that the card is bona fide and the holder is entitled to the prize.

b. Cash prizes may be awarded but the aggregate of such cash prizes (excluding the jackpot) must not exceed authorized limits prescribed per guidance provided in BUPERSINST 1710.13, paragraph 218. The recipient should properly sign for every bingo award. For additional verification, the recipient's name, rank (if applicable), social security number, organization, and telephone number should be recorded. Cash prizes should be paid by check or from an imprest fund established for that purpose. For this purpose the \$150 petty cash limitation is waived.

Merchandise Prize Controls. Bingo prizes may be procured on a consignment basis or purchased from commercial sources when authorized by the program manager. The purchase agreement for bingo prizes should permit the return of unaccepted prizes to the vendor for full credit. Bingo prizes held on consignment should not be recorded to financial records as an asset, liability, or revenue. A perpetual inventory of merchandise prizes should be kept current at all times, and a proper identification number should be affixed to each merchandise prize. Prizes should not be in a storeroom where employees have easy access. They should be kept under lock and key. Small expensive prizes require additional safeguards.

General. The mailing of any matter, including advertising, or otherwise relating to bingo, and the shipment of such matters in interstate commerce, is prohibited by Federal criminal statutes. The retail sale of bingo prizes is also prohibited. Surplus or slow-moving bingo prizes should be returned to vendors for credit or disposed of as a special or consolation prize.

<u>Internal Control Questionnaire</u>	<u>Yes</u>	<u>No</u>
---------------------------------------	------------	-----------

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Are high value bingo prizes (e.g., with a total fair market value of \$1,200 or more) received by one patron in one game reported to the Internal Revenue Service? (DOD 7000.14-R, vol. 13, chap. 7, para. 070203) | <input type="checkbox"/> | <input type="checkbox"/> |
|---|--------------------------|--------------------------|

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| b. Are recipients of bingo prize awards verified and required to provide required identification? (BUPERSINST 1710.13, para. 218; DOD 7000.14-R, vol. 13, app. C, para. C050709)  | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are cash prizes within authorized limits paid from an imprest fund or by a properly authorized check? (BUPERSINST 1710.13, para. 218; DOD 7000.14-R, Vol. 13, para. 030201 and App. C, para. C050709)                | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are bingo receipts controlled through the use of a cash register and/or prenumbered coupons or tickets? (BUPERSINST 1710.13, para. 218; DOD 7000.14-R, vol. 13, app. C, para. C050709)                               | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are properly completed special event reports prepared locally for each bingo event? (DOD 7000.14-R, vol. 13, app. C, para. C050709 and C0604)  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Is strict accountability maintained for bingo cards? (BUPERSINST 1710.13, para. 218; DOD 7000.14-R, vol. 13, app. C, para. C050709)  | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Do purchase agreements permit the return of unaccepted merchandise prizes for credit? (DOD 7000.14-R, vol. 13, app. C, para. C050709)  | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Are identification numbers affixed to each merchandise prize and is a perpetual inventory maintained in a secured storeroom and reconciled to local inventory records? (DOD 7000.14-R, vol. 13, app. C, par C050709) | <input type="checkbox"/> | <input type="checkbox"/> |

3.43. Amusement Machines (formerly concessions). **(Priority (2))** Amusement machines, formerly included under the heading of concessions in this section, are now covered in appendix A to enclosure (1). Although we recognize that administrative responsibility for the majority of amusement machines in the Navy system was transferred to Navy Exchange Command (NEXCOM), there are some commands that will benefit from using these procedures and internal control questionnaires to review their internal controls over these important sources of revenue. Some of these procedures have applicability for use in reviewing controls over cash receipts collection and contracts for related types of machines, such as slot machines and vending machines.



Section 4. ACCOUNTS RECEIVABLE

Objectives

4.1. Accounts receivable represent money owed to the activity as a consequence of

- a. credit extended to patrons,
- b. patrons' checks which were not honored by the bank,
- c. patrons' liability for damaged equipment, and
- d. credit extended to other activities.

These transactions should be recorded in individual accounts identified by the name of the patron or the activity. The sum of the individual accounts must equal the balances in the applicable general ledger controlling accounts. The person assigned examines accounts receivable to

- a. evaluate the adequacy of internal controls for recording charges and payments,
- b. evaluate the adequacy of collection procedures,
- c. establish the existence and validity of accounts,
- d. determine the collectibility of outstanding accounts, and
- e. determine the accuracy of the controlling accounts.

4.2. Procedures

4.21. Aging and Reconciling Accounts. **(Priority (2))** Obtain a list of the open accounts receivable for each general ledger controlling account. Classify the individual accounts into three categories for those outstanding

- a. less than 30 days,
- b. 30 to 60 days, and

c. over 60 days. The number of days outstanding is computed from the date of the original invoice to the cutoff date used. Procedures should include the following:

(1) Indicate any collections received subsequent to the cutoff period on the aging schedule.

(2) Examine, in detail, the delinquent accounts, which have not been paid subsequent to the cutoff period, and ascertain steps being taken to collect these accounts.

(3) Determine the collectibility of outstanding accounts and recommend disposition for those deemed uncollectible.

(4) Compare the total of all individual accounts receivable with the controlling account in the detail general ledger. Determine and record the reason for any differences.

(5) Trace charges and payments to the source documents.

(6) Verify that accounts with credit balances are carried on the books as liabilities.

(7) Investigate any personal accounts of employees included as accounts receivable.

(8) Verify whether all accounts written off as uncollectible during the cutoff period were approved by the CO.

#### 4.22. Accounts Confirmation (Priority (2))

a. To establish the existence and validity of accounts, the person assigned should correspond directly with debtors. If deemed desirable, send a confirmation request to selected debtors. The name and address of the debtors whose accounts are to be confirmed should be listed on a locally developed confirmation control sheet. It is essential that the assigned person controls the mailing of these letters, otherwise activity management may remove the letters. The letters should normally include a return envelope addressed to the command evaluation team, internal audit staff, or senior audit board member. Disagreements between the debtors and the activity concerning the amount owed should be investigated. If the sample confirmation indicates significant errors, the entire file of accounts receivable should be confirmed, and the procedures

should be extended to determine the cause and necessary corrective action.

b. Some debtors will not return the confirmation letter. The person assigned must decide whether additional written or verbal effort should be made to confirm these accounts.

c. Some debtors will include a payment with their response. These funds should be recorded, and turned over to the activity central cashier for deposit.

4.3. <u>Internal Control Questionnaire</u>	<u>Yes</u>	<u>No</u>
a. Are charge slips signed by the patron, and have authorization numbers and the source of identification (e.g. driver's license, credit card number) been entered on the charge slips (when necessary)? (DOD 7000.14-R, vol. 13, app. C, para. C050705)	<input type="checkbox"/>	<input type="checkbox"/>
b. Is it prohibited for credit to be extended to employees, other than those who are authorized patrons? (BUPERSINST 1710.13, para. 309 and 315)	<input type="checkbox"/>	<input type="checkbox"/>
c. Does the total of the individual charge the total recorded on the daily activity records? (DOD 7000.14-R, vol. 13, app. C, para. C050705 and C0604F)	<input type="checkbox"/>	<input type="checkbox"/>
d. Do the total credits for payments on accounts receivable equal the entry on the daily activity records? (DOD 7000.14-R, vol. 13, app. C, para. C0604F; RAMCAS User Handbook, Duty I, Task 1)	<input type="checkbox"/>	<input type="checkbox"/>

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| e. Are credits to individual accounts receivable, other than cash received in payment, properly documented and authorized? (RAMCAS User Handbook, section C, accounts 131, 132, 133, and 134)             | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are unpaid accounts 30 or more days old reviewed by a responsible official and reasonable efforts made to collect them? (DOD 7000.14-R, vol. 13, chap. 3, para. 030203; BUPERSINST 1710.13, para. 205) | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Is the write-off of delinquent accounts approved in writing by the CO? (DOD 7000.14-R, vol. 13, app. C, para. C050605; RAMCAS User Handbook, section C, accounts 131, 132, 133, and 134)               | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Returned checks  |                          |                          |
| (1) Have returned checks over 30 days old been reviewed by the activity manager? (DOD 7000.14-R, vol. 13, app. C, para. C050605; BUPERSINST 7200.2)   | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) Has a delinquent letter been sent to member's CO? (DOD 7000.14-R, vol. 13, app. C, para. C050605; BUPERSINST 7200.2)`   | <input type="checkbox"/> | <input type="checkbox"/> |
| (3) Has the activity made other reasonable effort to collect returned checks? (DOD 7000.14-R, vol. 13, app. C, para. C050605; BUPERSINST 1710.13, para. 315; BUPERSINST 7200.2)                           | <input type="checkbox"/> | <input type="checkbox"/> |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| (4) Are returned check charges to cover processing expenses incurred, assessed to patrons for returned checks? (BUPERSINST 1710.13, para. 315; BUPERSINST 7200.2)  | <input type="checkbox"/> | <input type="checkbox"/> |
| (5) Are controls adequate to ensure that all funds received for returned check charges are deposited in the local bank account? para. C050605 and C0603B (DOD 7000.14-R, vol. 13, app. C, para. C7200.2)     | <input type="checkbox"/> | <input type="checkbox"/> |
| (6) Does the total of all returned checks on hand reconcile with the balance sheet account? (DOD 7000.14-R, vol. 13, chap. 3, para. 090302B and app. C, para. C0603B; RAMCAS User Handbook, Duty IX, Task 1) | <input type="checkbox"/> | <input type="checkbox"/> |

**PART B**  
**THE EXPENDITURE CYCLE**

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Section 5. PROCUREMENT, RECEIVING AND ACCOUNTS PAYABLE

5.1. Objectives

a. The review of procurement and accounts payable is performed simultaneously because the two activities form a continuous cycle. The only exceptions to the cycle are purchases for cash or collect on delivery (C.O.D.) which are not accounts payable. The person assigned should keep in mind the necessity for adherence to internal controls by activity management and employees. A breakdown in controls may provide an opportunity for someone to receive an unauthorized benefit.

b. The procurement and receiving functions are reviewed to ascertain how well policies are followed with respect to issuing purchase orders and contracts, and receiving merchandise and services. The accounts payable function is examined to determine that amounts due to be paid by the activity arising from purchase of goods and services are documented, vendor invoices are examined and approved, and payments are timely made so as not to lose discounts. Accounts payable also encompasses a wide variety of other amounts owed, such as accrued expenses or accrued liabilities, credit balances in patrons' accounts, and refundable deposits received from customers.

5.2. Purchasing/Receiving Procedures. **(Priority (1))** To adequately review the purchasing/receiving functions, it is necessary to sample paid remittance statements from the vendor's file with supporting data. No fewer than ten separate vendors should be selected with at least one payment from each vendor. Each payment should be verified to the supporting purchase order (or contract), receiving certification and delivery ticket. The activity should have paid only for those items received and at the price contracted for on the original purchase order unless the purchaser (or manager) approves the price/quantity change. The purchase should comply with the purchase order terms. The bookkeeper is authorized to pay per the purchase order/authorized change amounts. The person assigned should use the alphabetical file of remittance statements with checks (RSWCs) and the related supporting documents to perform the following steps on the purchases selected to be examined:

a. Verify whether a purchase order or contract covers all purchases made from commercial sources.

- b. Review and determine the completeness of the purchase orders and contracts.
- c. Verify whether authorized personnel approved all purchase orders and contracts.
- d. Determine the adequacy of receiving procedures and verify whether authorized personnel have received goods and services.
- e. Verify whether purchase orders, contracts, and all related supporting documents were stamped "PAID" with check date and number or annotated in a way to prevent reuse.
- f. Verify whether purchase orders or contracts and RSWCs were properly recorded in the budget record (special services only).
- g. Ascertain the validity of cash disbursements by comparing the data on the purchase orders, receiving reports, vendors' invoices, and other related supporting documents with the accounting entries shown on the RSWC.
- h. Trace the posting of the accounting data from the RSWC to the detail general ledger, subsidiary ledgers, and stock record cards, where applicable, and determine their accuracy.

5.3. Internal Control Questionnaire

5.31. Purchases

Yes      No

- a. Is the purchasing function separate from the receiving, issuing, and accounting functions? (DOD 7000.14-R, vol. 13, app. C, para. C050801 and C050901; BUPERSINST 7043.1A, para. 107) ☐ ☐
- b. Are all purchases (except small items purchased from petty cash fund) made by means of a purchase order or contract? (DOD 7000.14-R, vol. 13, app. C, para. C050801) ☐ ☐
- c. Are purchase order forms Yes No



- prenumbered and include the activity's name and address?  
(DOD 7000.14-R, vol. 13, app. C, para. C050801; BUPERSINST 7043.1A, para. 218 and 219)
- d. Are all purchase orders and contracts legibly completed and approved by the contracting officer or other person specifically authorized in writing to approve procurement actions?  
(DOD 7000.14-R, vol. 13, app. C, para. C0508 and C0604901; BUPERSINST 7043.1A, para. 219)
- e. Are copies of the purchase order given to the receiving department as authority to accept goods and services? (DOD 7000.14-R, vol. 13, app. C, para. C0604H)
- f. Are concessionaires and entertainers operating with a formal contractual agreement? (DOD 7000.14-R, vol. 13, app. C, para. C050801 and C050804; BUPERSINST 7043.1A, para. 316 and 317; BUPERSINST 1710.11B, encl [4], para. 3; BUPERSINST 1710.13, para. 210 and 213)
- g. Is a contract review board established by the CO consisting of three members? (BUPERSINST 7043.1A, para. 110)
- h. Were all of the following actions by the NAFFI reviewed by the contract review board?

☐ ☐☐ ☐☐ ☐☐ ☐☐ ☐

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| (1) Solicitations where estimated value is in excess of \$25,000?<br>(BUPERSINST 7043.1A, para. 110)  | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) Award of Contracts in excess of \$10,000 to other than low offeror? (BUPERSINST 7043.1A, para. 110)   | <input type="checkbox"/> | <input type="checkbox"/> |
| (3) Sole source contracts in excess of \$10,000? (BUPERSINST 7043.1A, para. 110)  | <input type="checkbox"/> | <input type="checkbox"/> |
| (4) All contracts in excess of \$25,000.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (5) All termination actions?<br>(BUPERSINST 7043.1A,)   | <input type="checkbox"/> | <input type="checkbox"/> |
| (6) Modifications increasing or decreasing a contract in excess of \$5,000 or 10 percent of total contract value? (BUPERSINST 7043.1A, para. 110)   | <input type="checkbox"/> | <input type="checkbox"/> |
| (7) Extensions of contract delivery schedules? (BUPERSINST 7043.1A, para. 110)  | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Are all purchases in excess of \$5,000 made only after competition is solicited? Note: competition is not required when issuing delivery orders against Army and Air Force Nonappropriated Fund Procurement Office and General Services Administration contracts.<br>(BUPERSINST 7043.1A, para. 404) | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Are blanket purchase agreements (BPAs) used to establish open ended charge accounts with suppliers for goods that are needed repetitively  |                          |                          |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| in small quantities?<br>(DOD 7000.14-R, vol. 13, app. C,<br>para. C050803; BUPERSINST 7043.1A,<br>para. 304)   | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Are all BPAs issued for periods of<br>12 months or less? (DOD 7000.14-R,<br>vol. 13, app. C, para. C050803;<br>BUPERSINST 7043.1A, para. 304)   | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Are all blanket BPAs prepared as<br>per BUPERSINST 7043.1A, para. 304?  | <input type="checkbox"/> | <input type="checkbox"/> |
| m. Are the following placed on each<br>purchase order prior to issuance and<br>receipt of goods:<br>(DODINST 7000.14-R, Vol. 13, App. C,<br>para. C050801 and C0604H;<br>BUPERSINST 7043.1A, para. 219 and<br>406) | <input type="checkbox"/> | <input type="checkbox"/> |
| (1) The items name and description?  | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) The quantity ordered?  | <input type="checkbox"/> | <input type="checkbox"/> |
| (3) The designated price?  | <input type="checkbox"/> | <input type="checkbox"/> |
| (4) Signature of purchasing agent?   | <input type="checkbox"/> | <input type="checkbox"/> |
| (5) Date and terms of delivery?  | <input type="checkbox"/> | <input type="checkbox"/> |
| (6) Terms of payment?  | <input type="checkbox"/> | <input type="checkbox"/> |
| n. Is the authority of the purchasing<br>agent described in writing by the<br>contracting officer?<br>DOD 7000.14-R, vol. 13, app. C.,<br>para. C050801; BUPERSINST 7043.1A,<br>para. 106)                         | <input type="checkbox"/> | <input type="checkbox"/> |

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| (1) Does the contractor have a NAF contracting warrant issued by NAVPERSCOM (PERS-65)?  | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) Is the contracting authority restricted from being delegated to others?   | <input type="checkbox"/> | <input type="checkbox"/> |
| (3) Are NAF contracting appointments reviewed annually by the CO to ensure a valid need/requirement still exists for the warrant? | <input type="checkbox"/> | <input type="checkbox"/> |
| (4) Is adequate training provided for all personnel involved in the procurement process?  | <input type="checkbox"/> | <input type="checkbox"/> |
| (5) Are NAF contracting warrants restricted from ever being used to contract with APF?  | <input type="checkbox"/> | <input type="checkbox"/> |
| o. Are all oral calls against (DOD 7000.14-R, vol. 13, app. C, para. C050803; BUPERSINST 7043.1A, para. 304)                      |                          |                          |
| (1) Numbered in sequence?   | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) Approved by persons authorized to make calls?   | <input type="checkbox"/> | <input type="checkbox"/> |
| (3) Documented with:  |                          |                          |
| (a) BPA number?   | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) Call number and date?   | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) Quantity ordered if different from that on request form?  | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) Date of deliveries?   | <input type="checkbox"/> | <input type="checkbox"/> |
|   | <u>Yes</u>               | <u>No</u>                |

- (4) Limited to calls of \$5,000 or less? ☐ ☐
- p. Are all contracts for entertainment in the format shown in appendix B of BUPERSINST 1710.13, para. 214? ☐ ☐
- q. For food procurement, has the club made a weekly marketing spread sheet listing the prices charged by local vendors and the Defense Commissary Agency (DECA) for each item? BUPERSINST 1710.13, para. 510) ☐ ☐
- r. For alcoholic beverages, were distilled spirits purchased by the Navy Exchange package store sold to the Navy club at cost, plus the cost of transportation? (BUPERSINST 1710.13, para. 511) ☐ ☐
- s. Are all purchases of merchandise, supplies or property incident to the improvement or operation of a club program purchased from federal procurement sources Defense Service Administration (DSA), Federal Supply Service (FSS), GSA, NEXCOM agreement, bulletins, exchanges, commissaries, etc.)? Note: Only when the materials required are not available, may commercial sources be used. (BUPERSINST 7043.1A, para. 208) ☐ ☐
- t. Were entertainment contracts that cost the activity over \$2,500 per performance or contracts that exceeded \$5,000.00 per financial

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| period (accounting month) approved in writing in advance by the CO? (BUPERSINST 1710.13A, para. 101e(6)(b) and 214)   | <input type="checkbox"/> | <input type="checkbox"/> |
| u. List the name of each entertainer performing in the club for the test period. Ask the bookkeeper at all other clubs on station if any of these entertainers are used by the other clubs. Is each entertainer charging each club the same amount for the same entertainment on the same nights in the week? (BUPERSINST 1710.13, para. 214) | <input type="checkbox"/> | <input type="checkbox"/> |
| v. Are all vehicles that were purchased during the test period registered centrally with NAVPERSCOM (PERS-656)? (BUPERSINST 1710.11B, encl. [7], para. 5)   | <input type="checkbox"/> | <input type="checkbox"/> |
| w. Does the purchaser retain one copy of all issued purchase orders? (DOD 7000.14-R, vol. 13, app. C, para. C0604H)   | <input type="checkbox"/> | <input type="checkbox"/> |
| x. Is there a record of bids and awards? (BUPERSINST 7043.1A, para. 217; SECNAVINST 7043.5A; BUPERSINST 1710.13A, para. 509)  | <input type="checkbox"/> | <input type="checkbox"/> |
| y. Is the splitting of purchases to circumvent the \$5,000 limitation without soliciting competition avoided? (BUPERSINST 7043.1A, para. 203 and 404)   | <input type="checkbox"/> | <input type="checkbox"/> |

5.32. Receiving

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| a. Are receiving agents authorized in writing to receive merchandise? (DOD 7000.14-R, vol. 13, app. C, para. C050901)  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has someone been authorized as an alternate to receive deliveries in the absence of the designated receiving agent? (DOD 7000.14-R, vol. 13, app. C, para. C050901)   | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Does the receiving agent stamp and sign all receiving copies of purchase orders "Received (date) found satisfactory and accepted (name)? (DOD 7000.14-R, vol. 13, app. C, para. C050902; BUPERSINST 7043.1A, para. 706) | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Is the quality examined upon receipt? Is the item regularly returned with the shipper when the item is defective? (DOD 7000.14-R, vol. 13, app. C, para. C050902; BUPERSINST 7043.1A, para. 706)                        | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Is the quantity received recorded on both copies of the purchase order? (DOD 7000.14-R, vol. 13, app. C, para. C050902)   | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are serial numbers of NAF equipment received recorded on both copies of the purchase order when received? (DOD 7000.14-R, vol. 13, app. C, para. C050902)   | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Do the receiving clerks accept only those deliveries that are covered by purchase orders or contracts? (DOD 7000.14-R, vol. 13, app. C, para. C050902)  | <input type="checkbox"/> | <input type="checkbox"/> |

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| h. When merchandise is received by the department or storeroom and immediately transferred to another department or storeroom, are both copies of the purchase order and the vendor's delivery slip countersigned by the person to whom the inventory is turned over? (DOD 7000.14-R, vol. 13, app. C, para. C050902) | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Is a copy of the purchase order retained in the receiving area for future reference? (DOD 7000.14-R, vol. 13, app. C, para. C050902)   | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Is all merchandise placed immediately in locked storeroom or sent to an operating department? (DOD 7000.14-R, vol. 13, app. C, para. C050905)  | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Does the purchaser initial each charge when items received are different from items ordered prior to receipt of merchandise? (DOD 7000.14-R, vol. 13, app. C, para. C050904 and C050905)   | <input type="checkbox"/> | <input type="checkbox"/> |

5.4. Accounts Payable Procedures (Priority (1))

a. The person assigned should obtain or prepare a listing of outstanding accounts payable and contracts. This listing should classify (age) the account balances into one of three categories as those outstanding

(1) less than 30 days,

(2) 30 to 60 days, and



(3) over 60 days. The number of days outstanding is computed from the date of the first unpaid invoice. The balance sheet accounts 201 "Accounts Payable - Trade" and 202 "Payable - Other" should be verified to this listing.

b. The total of the unpaid invoices or subsidiary ledger amounts should equal the general ledger balance. Ascertain the reason for any difference.

c. The person assigned should randomly select accounts less than 30 days old, including accounts closed within the past 29 days, and all accounts 30 or more days old. Trace the purchases (credits) for each individual account to the source documentation.

d. Trace payments (debits) for each individual account to the source documentation. Determine whether the total amounts on the source documentation equal the amounts entered to the accounts and vendor's invoices. Examine the canceled checks to verify whether both the correct amount of payment and the endorsements are those of the payee. Investigate all third party checks to determine whether an activity employee may have received the check proceeds. If the canceled checks are not available at the time of review; they should be examined upon receipt from RAMCAS.

e. The person assigned should compare recreation and club funds obligated to the approved budgets to identify significant overruns, which have not been approved by the CO. Club purchases of fixed assets should have been specifically identified in the approved budget.

f. Through inquiry, and a review of the accounts payable during the first month following a test period, the person assigned should determine if any accounts payable were actually debts of the review period. (Note: Deferring the recording of purchases will inflate the test period's gross profit.)

g. Extend the review work to include the development of information concerning each internal control question answered "No". When feasible, use the selected individual accounts to develop this information.

h. Using the list of selected accounts payable (whether paid in full or not) the person assigned should consider mailing

confirmations to debtors. Observe the procedures and controls contained in the accounts receivable section when confirming debts. A pre-addressed, franked envelope should be provided to vendors to assure return.

i. Any discrepancies arising from the confirmation of accounts payable should be examined to determine the reason.

5.5. Internal Control Questionnaire - Accounts Payable

	<u>Yes</u>	<u>No</u>
a. Are all invoices approved and certified as correct by the manager or other responsible employee prior to processing for payment? (DOD 7000.14-R, Vol. 13, App. C, para. C051002; RAMCAS User Handbook, Duty IV, Task 1)	<input type="checkbox"/>	<input type="checkbox"/>
b. Are paid invoices stamped or perforated with the notation "Paid" with check date and number to preclude their duplicate payment? (DOD 7000.14-R, Vol. 13, App. C, para. C051001)	<input type="checkbox"/>	<input type="checkbox"/>
c. Is there a definite responsibility for checking invoices for accurate prices, extensions and discount terms? (DOD 7000.14-R, Vol. 13, App. C, para. C051001)	<input type="checkbox"/>	<input type="checkbox"/>
d. Are all payments for goods and services properly supported and controlled? (DOD 7000.14-R, Vol. 13, App. C, para. C051001 and C051002)	<input type="checkbox"/>	<input type="checkbox"/>

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| e. Are all discounts offered taken?<br>(DOD 7000.14-R, Vol. 13, App. C,<br>para. C051002)  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are invoices checked by the<br>bookkeeper against purchase order<br>and receiving documents and stamped<br>"Accuracy confirmed and payment made<br>(date) by (name)" or words to that<br>effect? (DODINST 7000.14-R, Vol.<br>13, App. C, para. C051002) | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Does the bookkeeper wait for<br>receipt of invoice from the vendor<br>prior to making payment? (DOD<br>7000.14-R, vol. 13, app. C, para.<br>C051001 and C051002)  | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Is there enough cash available as<br>shown on the balance sheet to pay<br>the total of all current<br>liabilities? (DOD 7000.14-R, vol.<br>13, app. C, para. C0208)   | <input type="checkbox"/> | <input type="checkbox"/> |

5.6. Accruals (**Priority (2)**)

5.61. Objectives. To determine whether the procedures being used by the bookkeeper are adequate to ensure that the actual expenses incurred, but not paid, are assigned to the proper accounting period. Failure to do so could lead to incorrectly matching the revenue collected to the expenses incurred in obtaining that revenue.

5.62. Accrual Procedure. Accrued expenses are reported to RAMCAS on an accrual or a general journal voucher (GJV). The contra entry is to be made to the appropriate current liability account.

a. Each accrual at month-end should be supported by bookkeeper maintained worksheets. The amounts related to the payroll accounts should come from the timecards. The rate of pay should be verified for each employee and all time should be part of the accrual, including holidays.

b. For wages payable, the accrual should be for the amount owed to employees from the last payday through the end of the month.

c. Accrued annual leave payable should be the balance of all leave payable as of the last payday. It should be computed from the employee leave records.

d. All taxes payable are the taxes owed IRS and the State since the last payment. The payroll should support the amount.

e. Payroll deductions payable should be that amount owed to the bank since the last payment. It should never exceed one pay period's deductions.

f. Insurance payable should be the amount owed for all employees since the last payment. The amount should be verified to the payroll.

5.63. Documentation. Since no questions are asked in this section, it is imperative that supporting documents be prepared. They should include a description of efforts taken to examine each account's balance with attached computations.

Section 6. CASH DISBURSEMENTS

6.1. Objectives. The reason for examining disbursements is to test the activity's system for authorizing and paying its bills. The disbursement of cash is related to the receipt of services (payrolls and contracts), purchase and receipt of merchandise for resale, supplies, and fixed assets (buildings, equipment, and vehicles).

a. Persons assigned should be constantly aware of these relationships when reviewing disbursements so that the reason behind the disbursements can be understood. By doing this, disbursements can be reviewed within a context of their reasonableness in achieving the activity's purposes.

b. Check stock of the concentration bank account is issued to the activities by RAMCAS. Check stock of imprest bank accounts is issued to the activity by the local bank. The bookkeeper should verify whether the checks are correct and the quantity ordered is received.

6.2. Procedures. (**Priority (1)**) Review the disbursement journal or copies of the RSWCs which were examined as part of the review of accounts payable, payroll, inventory and fixed assets.

a. Review prior audit and review reports and work papers to become familiar with the type of transactions that indicated internal control weaknesses or were questioned. These types of disbursements, which recurred during the test period, should be examined.

b. Look for such transactions in other periods during the fiscal year. Enter the information developed by these reviews on a worksheet.

c. Additional disbursements to be selected for examination are determined as follows:

(1) Scan the RSWC file or checks listed in the disbursement journal for any unusually large amounts of money or new payees.

(2) Disbursements for capitalized fixed assets.

(3) Random selection of RSWCs.

d. List these disbursements on a worksheet. Perform the following verification for each listed RSWC. Ensure that the signature on the checks is an authorized signatory by comparing the name with the current signatory card for the account.

(1) Investigate all checks made payable to a bank or activity employee other than regular payroll disbursements.

(2) Compare endorsements on the check with the name of payee.

(3) Investigate double endorsements where the second endorsement is that of an activity employee.

(4) Ascertain the validity of cash disbursements by comparing the data on the purchase orders, receiving reports, vendors' invoices, and other related supporting documents with the accounting entries shown on the RSWCs.

(5) Trace the posting of the accounting data from the RSWC to the detail general ledger, subsidiary ledgers, and stock record cards, where applicable, and determine its accuracy.

(6) Verify that purchase orders, contracts, and all related supporting documents are stamped or perforated "PAID" with check date and number or annotated in a way to prevent reuse.

(7) Verify whether the RSWCs were properly recorded in the budget record.

### 6.3. Internal Control Questionnaire

6.31. Cash Disbursements Yes No

- a. Are printed, prenumbered disbursement checks used, kept in secure locations and issued in numerical sequence by someone other than the check preparer? (DOD 7000.14-R, vol. 13, app. C, para. C051001)

☐☐

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| b. Are checks presented for signature accompanied by supporting documents; i.e., invoices, and evidence of receipt and acceptance of goods and services signed by an authorized employee? (DOD 7000.14-R, vol 13, app. C, C051002, RAMCAS User Handbook, Duty V, Task 1) | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are voided checks mutilated by cutting off the signature area and writing "VOID" in the "amount" space? (DOD 7000.14-R, vol. 13, app. C, para. C051001; RAMCAS User Handbook, Duty V, Task 1)   | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Do the entries on the transmittal envelope sent to RAMCAS agree with the check numbers and amounts of check copies enclosed in the envelope? (RAMCAS User Handbook, Duty III, page B-27)  | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are canceled checks returned by RAMCAS examined for validity of issuance and whether the payee endorsed the check? DOD 7000.14-R, vol. 13, app. C, para. C050606)   | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are all disbursements, except those from petty cash, made by check? (DOD 7000.14-R, vol. 13, app. C, para. C051001)   | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Do checks in the amount of \$20,000 or more have two authorized signatures? (RAMCAS User Handbook, Duty V, Task 1; DOD 7000.14-R, vol. 13, app. C, para. C051001)   | <input type="checkbox"/> | <input type="checkbox"/> |

- 6.32. Prohibited Disbursing Practices. Yes No  
"Yes" answers to the following questions indicate that the person assigned should obtain additional information, following procedure 6.2d and e. These practices are a violation of basic internal controls and present an opportunity for fraud.
- a. Are checks payable to "Cash" or "Bearer" or some similar payee prohibited? (DOD 7000.14-R, Vol. 13, app. C, para. C051001) ☐ ☐
- b. Are checks signed before the payee's name/amount is entered thereon? Are any checks pre-signed for times when the manager is on leave? They should not be. (DOD 7000.14-R, vol. 13, app. C, para. C051001) ☐ ☐

6.4. Internal Revenue Service (IRS) Reports. **(Priority (2))** The following IRS forms are required to be forwarded to the IRS by the activity on or before the last day of February for the previous calendar year.

- a. Form 941, Employer's Quarterly Tax Return
- b. Form 1096, Annual Summary and Transmittal of U.S. Information Returns
- c. Form 1099-MISC, Miscellaneous Income
- d. Form W-2G Certain Gambling Winnings

Note: The person assigned should verify whether payments made to individuals for services rendered (e.g., entertainers, referees, instructors), aggregating to \$600 or more during a taxable year, have been reported to IRS on Form 1099, DOD 7000.14-R, vol. 13, per para. C050502.



**PART C**  
**THE PAYROLL CYCLE**

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## Section 7. PAYROLL

7.1. Objective. Payroll is normally the largest single cost of an MWR fund. Accurately prepared pay checks issued each pay day are essential to maintaining employee morale. A properly designed pay system assures that only bona fide employees are paid for the hours worked at authorized rates. It also accurately records the accrual and use of leave, and produces correct payroll tax reports.

MWR funds use one of three payroll procedures. One procedure is the centralized pay system which generates checks drawn on the concentration bank. The second and third are systems operated by a local MWR fund; checks are drawn against either the concentration bank account or an imprest account at a local bank.

The purpose of reviewing payroll is to determine whether

a. staffing levels have been established and included in the budget,

b. persons employed fill authorized and classified positions, and that the payroll system

(1) computes pay, deductions, and leave;

(2) maintains individual earnings records;

(3) produces payroll reports; and

(4) issues payroll checks on payday, all with a high degree of accuracy.

7.2. Procedures. **(Priority (1))** The person assigned to perform the review should obtain a listing of approved positions, which support the budget. Select a sample, biweekly pay period during the test period. The person assigned should list the names of the employees randomly selected on a worksheet. Using the payroll journal, the employees' individual earnings records, leave records and related supporting documents (e.g. time cards/sheets, work schedules, leave applications, overtime authorizations), together with the selected personnel

files, the person assigned should perform the following steps for each employee and record the data on the worksheet.

- a. Ascertain if each employee fills an authorized position.
- b. Verify that the rate of pay shown on the payroll is substantiated by the grade and step or pay band shown on the Personnel Action Report (PAR) and the DOD wage rate schedule or pay bands in effect during the applicable pay period.
- c. Examine the time cards/sheets for authorized changes and approval by the supervisor. Determine the actual hours for which the employee is to be compensated. The actual hours should be compared with the approved work schedules.
- d. Check the gross pay calculations and determine whether employees are being properly compensated for regular hours, overtime, night shift differential, Sunday premium, holiday, and leave pay.
- e. Verify that the gross pay and distribution of expenses for each employee have been correctly recorded on the payroll journal.
- f. Verify that all payroll deductions are correctly computed and supported by authorizations signed by the employee. Authorizations for taxes and employee benefits should be on file in the personnel folder. Other deductions (e.g. credit union, Federal campaign, etc.) should be on file in either the personnel folder or the payroll section.
- g. Determine the accuracy of the net pay for each employee (gross pay less deductions equals net pay).
- h. Verify that annual and sick leave earned was correctly computed and recorded on the employees' leave records. Also, verify that annual and sick leave taken (as substantiated by approved leave requests) were properly recorded on the employees' leave records.
- i. Verify that earnings, deductions, and net pay on the payroll journal agrees with the amounts on the individual earnings records.
- j. Trace the accounting data from the payroll journal to the detail general ledger via the payroll summary.

k. Compare the quarterly gross pay for all employees to the amounts reported to the IRS on IRS 941, Employer's Quarterly Federal Tax Return, and verify that the required payments for withholding and social security taxes were made in a timely manner.

l. Examine the procedures and determine the accuracy of accrued wages and annual leave at the end of the accounting period under review. (see section 5.6 - Accruals)

m. For funds where payroll checks are drawn against the concentration bank account, the procedures for reviewing canceled checks are outlined in paragraph 2.22 of section 2. For funds where payroll checks are drawn against an imprest bank account, compare endorsements for authenticity and investigate double endorsements where the second endorsement is that of an employee of the fund. In addition, verify that the amount deposited for each pay period during the quarter is in agreement with the total net pay amount recorded on the payroll journal.

Note: Any discrepancies in the above steps must be explained in separate documentation.

### 7.3. Internal Control Questionnaire and Supplemental Procedures

7.31. <u>General</u>	<u>Yes</u>	<u>No</u>
a. Are all activity positions in the approved staffing level included in the approved budget? (DOD 7000.14-R, vol. 13, app.C, para. C0203)	<input type="checkbox"/>	<input type="checkbox"/>
b. Does management control positions to assure persons are not employed to fill positions which are not authorized, or which exceed the grade levels or pay band range as classified? (SECNAVINST 5300.22A, chapter III, para. 2 and BUPERSINST 5300.10)	<input type="checkbox"/>	<input type="checkbox"/>
c. Has the CO delegated classification authority for NAF positions through	<u>Yes</u>	<u>No</u>

- pay band 4 to the manager of the fund (MWR director)? BUPERSINST 5300.10) ☐ ☐
- d. Were all new positions projected for pay bands 5 and 6 classified by NAVPERSCOM (PERS-653) prior to recruitment? (BUPERSINST 5300.10) ☐ ☐
- e. Is there a position description on file that corresponds to the employee's current pay grade? (BUPERSINST 5300.10) ☐ ☐
- f. Are employee additions and deletions from the payroll, as well as changes in pay and promotions, evidenced by an approved PAR? (BUPERSINST 5300.10) ☐ ☐
- g. Are Crafts and Trades (C&T) (NA, NL and NS) employees paid at rates established for the classified grade and step? (BUPERSINST 5300.10) ☐ ☐
- h. Are pay rates for NAF and General Schedule Equivalent (GSE) employees within the range of the assigned pay bands established by DOD Wage Fixing Authority? (BUPERSINST 5300.10) ☐ ☐
- i. Are National Agency Checks (NACs) performed for all management and hourly paid supervisory employees, child care employees and other employees in custody of funds/inventories in excess of \$5,000? (BUPERSINST 5300.10) ☐ ☐

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| j. Are military personnel assigned to clubs as military duty employed only as manager/assistant manager or in support of the essential feeding function in a consolidated mess or commissioned officers' mess? (BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Military assigned managers working in a NAFI as military duty should not be working at the same NAFI also as an employee on a part-time basis. Do any do this? If so, list their names. (BUPERSINST 5300.10)                     | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Are properly authorized personal service contracts used only for those positions which do not require the employment of an individual on a continuing basis? (BUPERSINST 5300.10)  | <input type="checkbox"/> | <input type="checkbox"/> |
| m. Are members of the same family prohibited from working in positions where favorable payroll treatment or collusion may occur? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| n. Are any regular full-time or regular part-time employees holding two or more part-time jobs at different funds prohibited from working more than 40 hours a week? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| o. Are payroll computations checked by someone other than the person who prepares the payroll? (DOD 7000.14-R, vol. 13, app. C, para. C051101F)   | <input type="checkbox"/> | <input type="checkbox"/> |
| p. Are all employees paid by check (not required in payment of foreign nationals)? (DOD 7000.14-R, vol. 13, app. C, para. C051101A)   | <input type="checkbox"/> | <input type="checkbox"/> |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| q. Is the fund prohibited from cashing payroll checks of its own employees? (DOD 7000.14-R, vol. 13, app. C, para. C050603C)   | <input type="checkbox"/> | <input type="checkbox"/> |
| r. Are unclaimed payroll checks voided after 2 weeks from the date of issue? (DOD 7000.14-R, vol. 13, app. C, para. C051101I)  | <input type="checkbox"/> | <input type="checkbox"/> |
| s. Are all payroll checks annotated or stamped "Void after 60 days?" (DOD 7000.14-R, vol. 13, app. C, para. C051101I)  | <input type="checkbox"/> | <input type="checkbox"/> |
| t. Are employees who receive gratuities and cash tips in the amount of \$20 or more during a calendar month reporting such earnings to management on or before the 10th day of the following month; and are such amounts included in the employees gross wages? (DOD 7000.14-R, vol. 13, app. C, para. C051102D) | <input type="checkbox"/> | <input type="checkbox"/> |
| u. Are salaries and wages earned and not paid at the end of an accounting period recorded as accruals in the general ledger? (DOD 7000.14-R, vol. 13, chap. 1, para. 010301 and RAMCAS User Handbook, Duty II, Task 3, Page B-23)  | <input type="checkbox"/> | <input type="checkbox"/> |
| v. Is the payment of monetary supplements to enlisted personnel assigned to key managerial positions prohibited? (BUPERSINST 5300.10)  | <input type="checkbox"/> | <input type="checkbox"/> |
| w. Are civil service and NAF employees prohibited from receiving compensation for more than one position in the  |                          |                          |

	<u>Yes</u>	<u>No</u>
Federal government in which, in the aggregate, exceed 40 hours of work in any one week? (BUPERSINST 5300.10)	<input type="checkbox"/>	<input type="checkbox"/>

7.32. Timecard and Work Schedules. The person assigned should also examine time cards, work schedules, and payroll to determine the following:

- |  |                          |                          |
|--|--------------------------|--------------------------|
| a. Are written approved work schedules available for all regular full-time, regular part-time, and flexible scheduled employees?<br>(DOD 7000.14-R, vol. 13, app. C, para. C051101B) | <input type="checkbox"/> | <input type="checkbox"/> |
| (1) Are all changes to the approved work schedule(s) authorized in writing by the manager or their designated representative? (DOD 7000.14-R, vol. 13, app. C, para. C051101B)       | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) Are full-time employees scheduled for at least 35 hours per week? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| (3) Are time cards compared to work schedules before preparation of the payroll? (DOD 7000.14-R, vol. 13, app. C, para. C051101D)  | <input type="checkbox"/> | <input type="checkbox"/> |

7.33. Night Shift Differential Pay

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Has local policy been established in writing to substantiate the payment or nonpayment of night shift differential pay for NAF and GSE employees? (BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |
|---|--------------------------|--------------------------|



- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| b. Is the payment or nonpayment of night shift differential pay to NAF and GSE employees in conformity with local written policy? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are regularly scheduled C & T (NA, NL and NS) employees paid night shift differential pay at:   |                          |                          |
| - 7 ½ percent of the scheduled rate of pay for the entire shift when the majority of the regularly scheduled non-overtime whole hours worked occur between 1500 and 2400? (BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |
| - 10 percent of the scheduled rate of pay for the entire shift when the majority of the regularly scheduled non-overtime whole hours worked occur between 2300 and 0800? (BUPERSINST 5300.10)  |                          |                          |
| d. Is night differential paid in addition to holiday and overtime pay? (BUPERSINST 5300.10)  | <input type="checkbox"/> | <input type="checkbox"/> |

7.34. Sunday Premium Pay

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Has local policy been established in writing to substantiate the payment or nonpayment of Sunday premium pay for regularly scheduled full-time (40 hours per week) NAF and GSE employees? (BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is the payment or nonpayment of Sunday premium pay to NAF and GSE employees in conformity with the local written policy? (BUPERSINST 5300.10)  | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are C & T (NA, NL, and NS) employees   | <u>Yes</u>               | <u>No</u>                |

that are regularly scheduled to work  
40 hours a week properly compensated  
for? (BUPERSINST 5300.10)

☐ ☐

- d. Do only regularly scheduled 40 hour  
a week employees receive Sunday  
premium pay up to a maximum of eight  
hours each shift? (BUPERSINST  
5300.10)

☐ ☐

- e. Are only those employees who are  
entitled to Sunday premium pay  
receiving premium pay for the entire  
shift when part of their schedule is  
for time after 2400 Saturday night?  
(BUPERSINST 5300.10)

☐ ☐

7.35. Overtime. Sample time cards, and choose some who either  
work more than 8 hours in one day or 40 hours in a week.

- a. Are C & T (NA, NL, and NS) employees  
paid at the overtime rate for all  
hours and fraction of hours worked  
in excess of 8 hours in a day or 40  
hours in a week? (BUPERSINST  
5300.10)

☐ ☐

- b. Are NAF and GSE nonexempt employees  
paid at the overtime rate for all  
hours and fraction of hours worked  
in excess of 40 hours in a week?  
(BUPERSINST 5300.10)

☐ ☐

- c. Are those employees that are  
entitled to night shift differential  
pay compensated at one and one-half  
times the rate of basic pay for all  
overtime hours worked? (BUPERSINST  
5300.10)

☐ ☐

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| d. Is overtime pay computed to include only the rate of basic pay?<br>(BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Is all overtime approved in advance? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are only those employees that are exempt from the overtime provisions of the Fair Labor Standards Act (FLSA) granted compensatory time off in lieu of overtime pay?<br>(BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Is overtime paid or compensatory time off granted for executive staff (FLSA exempt), the head of the local NAFI or the employee's supervisor?<br>(BUPERSINST 5300.10)                       | <input type="checkbox"/> | <input type="checkbox"/> |

7.36. Annual and Sick Leave Pay

- |  |                          |                          |
|--|--------------------------|--------------------------|
| a. Are all flexible employees prevented from receiving annual and sick leave credits? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are all regular full-time and regular part-time employees allowed to earn annual and sick leave at the rates established by Navy policy?<br>(BUPERSINST 5300.10)    | <input type="checkbox"/> | <input type="checkbox"/> |
| c. When employees are on leave are they:<br><br>(1) Paid for regularly scheduled hours that do not exceed 40 in the employee's basic workweek?<br>(BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| (2) Charged for leave only for those days scheduled to work?<br>(BUPERSINST 5300.10)                   | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are employees compensated for annual or sick leave only on scheduled workdays? (BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |

7.37. Holiday Pay

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Has local policy been established in writing to substantiate the payment or nonpayment of holiday pay for flexible NAF and GS employees? (BUPERSINST 5300.10)  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is the payment or nonpayment of holiday pay to flexible NAF and GS employees in conformity with local written policy? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are all regular full-time and regular part-time employees, that are excused from work because of a holiday, paid for scheduled hours on the holiday at their basic rate of pay? (BUPERSINST 5300.10)         | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are regular full-time and part-time employees paid their rate of basic pay for work performed on a holiday plus premium pay at a rate equal to their rate of basic pay for the holiday? (BUPERSINST 5300.10) | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are all flexible scheduled C & T and trades employees paid holiday premium pay? (BUPERSINST 5300.10)   | <input type="checkbox"/> | <input type="checkbox"/> |

- |   |                          |                          |
|---|--------------------------|--------------------------|
| f. Is holiday premium paid for work in addition to overtime, night shift differential, and/or premium pay for Sunday work? (BUPERSINST 5300.10) | <u>Yes</u>               | <u>No</u>                |
|   | <input type="checkbox"/> | <input type="checkbox"/> |

7.38. Within Grade Increases (For C & T (NA, NL, and NS) employees ONLY). Select a sample of the C & T employees' records to be examined. Determine if the employees have been granted within grade increase in the time sequences per Federal Personnel Manual (FPM) supplement 532-2, para. S8-5. Internal control questions.

- |  |                          |                          |
|--|--------------------------|--------------------------|
| a. Are C & T employees, with a work performance rating of satisfactory or better, automatically advanced to the next higher rate of their grade at the beginning of the first pay period following completion of the required waiting period? (FPM supplement 532-2, para. S8-5) | <u>Yes</u>               | <u>No</u>                |
|  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are all within grade increases substantiated by an approved PAR? (BUPERSINST 5300.10)   |                          |                          |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

7.39. Lump Sum Leave Payments. Examine lump sum leave payments for employees who have left NAFI employment. Did the lump sum leave payment:

- |  |                          |                          |
|--|--------------------------|--------------------------|
| a. Include night differential (7.5 percent or 10 percent) based on previously scheduled work? (FPM Supplement 532-2, para. S8-4c)  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Exclude Sunday premium pay for those 40 hour a week full-time and flexible employees that were regularly scheduled to work on Sunday? (FPM Supplement 532-2, para. S8-4e) | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Include the total number of   | <u>Yes</u>               | <u>No</u>                |

accrued annual leave hours earned  
with any fractional parts of an hour  
raised to the next whole number?

☐ ☐

- d. Exclude any payments for unused  
sick leave? (BUPERSINST 5300.10)

7.391. Work Performance Appraisal

- a. Are annual work performance ratings  
conducted at least every 14 months?  
(BUPERSINST 5300.10)

☐ ☐

7.4. Controlled Pay Check Distribution. The person assigned should consider observing the distribution of payroll checks/employee leave and earnings statements to determine that the recipients are the employees whose names are on the payroll. A preferable method is for the person assigned to conduct the review to distribute the checks/leave and earnings statements in the presence of the person who normally makes the distribution. Extreme care must be taken to account for all checks, particularly those situations where checks are mailed directly to a bank, where one employee customarily picks up another employee's check, or when an employee is absent. The person conducting the review should retain such checks in a locked safe, until the absent employee personally identifies himself. Exceptions are permitted when the authenticity of the employee can be established, the employee is on extended leave or Temporary Duty (TDY), or the absent employee has filed a written authorization. Employees receiving checks/leave and earnings statements should sign a copy of the payroll register, or other signature control list. Signatures of employees who sign for receipt of paychecks should be verified against the government issued NAFI I.D. card. Checks payable to persons not entitled thereto should be retained by the person assigned to conduct the review and referred to the CO for further investigation.

**PART D**  
**THE CONVERSION CYCLE**

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Section 8. MERCHANDISE AND CONSUMABLE INVENTORY

8.1 Objectives. Inventories constitute a large part of all current assets and are more susceptible to major errors and manipulation than any other current asset, except cash. Therefore, it is essential that all persons assigned understand inventory procedures per DOD 7000.14-R, volume 13, appendix C, paragraph C051205.

a. Any indications of theft, fraud, or mismanagement should be brought to the attention of the local "hot line" office or the CO immediately. Clubs have resale merchandise located in departments (point of sale) and in central storerooms/warehouses. These inventories should be entered on the official records of the activities at cost.

b. Resale merchandise should be charged to the appropriate MWR department(s) and entered on the official records by using both cost and retail value.

c. Local management should determine the frequency of physical inventories during the year. Resale inventory verification should be performed in December, March, June, and September but may be taken more frequently. Food and beverage resale inventories should be performed monthly.

d. Merchandise and consumable inventories should be reviewed to ascertain

- (1) effectiveness of internal controls over inventories;
- (2) accuracy of the physical counts of inventories;
- (3) quality or condition of the inventories;
- (4) accuracy of pricing, extensions, and total value of inventories;
- (5) correctness of the inventory amounts depicted on the balance sheet; and
- (6) timeliness with which adjustments are made to correct the account balances.

## 8.2. Procedures

8.21. Observation of Physical Inventory. The physical inventory verification should be performed by activity personnel. Independent, impartial people should be assigned to observe the scheduled physical inventories. Scheduling and timing should be a coordinated effort of management and the persons assigned to conduct the review to achieve maximum coverage with the available staff and their names and position titles should be recorded on the official inventory records to validate each inventory.

a. People assigned should determine whether inventory procedures outlined in DOD 7000.14-R, volume 13, appendix C, paragraph C051205, are being followed. Any discrepancies, which might result in incorrect counts or valuation, should be discussed with management, documented in the working papers, and included in the report.

b. Prior to commencing the review, the people assigned should obtain a complete listing of all items to be inventoried by type, department, storeroom, and location. The total number of items to be test counted should meet the following percentages for each category:

	<u>Percentage of Total</u>
Meats and liquor	20
Tobacco	20
Recreation Funds (all departments)	20
Food, exclusive of meats	10
Supplies and replacements	10
Other resale	10
Sundries	5

c. Immediately after activity personnel have completed their earliest counts the person assigned should count the selected items. Should there be a difference, the person assigned should recount to determine which count is correct. Results of counts should be recorded in the work papers. The counter's tally is not corrected in the workpapers since the purpose of this part of the review is to test the accuracy of the work done by the counters.

d. Errors made by the counters should be discussed with management, not with the counters. This should be done during the physical inventory so that counters' errors can be corrected early in the inventorying process. After the bookkeeper has adjusted the stock record cards or other authorized automated inventory control records to the physical inventory, the person assigned should enter the quantity balances from the stock records or automated inventory control records onto the work papers. Compare the work papers balance to the "stock or automated inventory record" balance. Determine the reasons for and explain any differences in the work papers.

e. Should the person assigned conclude that the physical inventory is unacceptable, the person should either

(1) arrange with management for another inventory to be conducted; or

(2) qualify the evaluation prescribed in the introduction, paragraph 12. Any reinventory should be preceded by training and planning to correct the physical inventory process.

8.22. Valuation of Inventories. The person assigned should obtain a copy of the completed inventory sheets from management. Check a sample of invoices/stock record cards or automated inventory control records for latest prices.

8.23. Other Inventory Considerations. During the course of completing the above steps, the people assigned should make determinations in the following areas:

a. Safeguarding Inventories. Check the physical locations where inventories are kept to determine whether they are adequate to protect against breakage, spoilage, damage from the elements, and unauthorized withdrawals.

b. Quality or Condition of Inventory Items. Check individual items to determine whether they are of satisfactory quality or condition to be used. Unusable items should be surveyed for write-off evaluation and disposition.

c. Overstocked or Slow Moving Items. Review stock records or automated inventory control records to identify slow moving items (sales are infrequent) and overstocked items (quantities on hand greatly exceed sales requirements between inventory replenishment dates).

d. Inventory Overages and Shortages. After the inventory has been posted to the stock records or automated control records, the person assigned should list all overages and shortages by item on a worksheet. Overages and shortages should be investigated to determine the cause DOD 7000.14-R, volume 13, appendix C, paragraph C051205F.5. Any deficiencies should be entered in the working papers.

### 8.3. Internal Control Questionnaire

#### 8.31. Inventory Management

Yes      No

a. Are persons designated to be responsible for the control of various inventories? DOD 7000.14-R, vol. 13, app. C, para. 050905)

☐☐

b. Are stock record cards or authorized automated inventory control records maintained for central storeroom and warehouse items? (DOD 7000.14-R, vol. 13, app. C, para. C051202 and C0604)

☐☐

c. Are the stock record cards or authorized automated inventory control records controlled by someone other than the individual responsible for the storeroom? (DOD 7000.14-R, vol. 13, chap. 9, para. 090202)

☐☐

d. Are stock record cards or authorized inventory control records checked against the physical count and are significant or repetitive discrepancies investigated and reported to the CO? (DOD 7000.14-R,

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| vol. 13, app. C, para. C051202 and C051205)  | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Is stock binned, labeled, safeguarded, and controlled to minimize loss from erroneous issuance, sale, theft, and destruction from weather or fire? (DOD 7000.14-R, vol. 13, app. C, para. C050905 and C051205)                                      | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are the high and low inventory levels recorded on stock record cards or authorized automated inventory control records reasonable taking into consideration sales volume and delivery lead time? (DOD 7000.14-R, vol. 13, app. C, para. C051205D)   | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Are extras, given by vendors to activities to promote sales, recorded upon receipt on the stock record cards, and sold or otherwise properly utilized for the benefit of the activity? (DOD 7000.14-R, vol. 13, app. C, para. C051202G and C051205) | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Is there an indication of inventory accumulation or inappropriate benefits being received by activity manager/ employees, which might occur should brand favoritism be practiced? (BUPERSINST 7043.1A, para. 108)                                   | <input type="checkbox"/> | <input type="checkbox"/> |

Yes      No

- i. Are all significant losses (breakage, spoilage, etc.) investigated, surveyed, and reported to the CO? (DOD 7000.14-R, vol. 13, app. C, para. C051205F.5)
- j. Are fixed assets excluded from the resale inventory? (DOD 7000.14-R, vol. 13, app. C, para. C051202)

☐      ☐

☐      ☐

8.32. Receipt of Merchandise

- a. Is all merchandise received as a result of issued purchase orders and are receipts evidenced by receiving reports on which are recorded the date received and the signature of the person authorized to receive merchandise? (DOD 7000.14-R, vol. 13, app. C, para. C0509)
- b. Are all receipts of central storeroom and warehouse items recorded on the stock records or other authorized automated inventory control records? (DOD 7000.14-R, vol. 13, chap. 3, para. 030204C and app. C, para. C050905A and C0604C; RAMCAS User Handbook, duty IV, task 3)

☐      ☐

☐      ☐

8.33. Resale Inventories

- a. Is a resale department inventory summary prepared monthly for each department having resale inventory? (RAMCAS User Handbook, duty IV, task 5)

☐      ☐

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| b. Are the monthly summaries supported by inventory records (NAVCOMPT Form 2215) or other authorized automated inventory control records for each department? (RAMCAS User Handbook, duty IV, task 5)                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 8.34. <u>Issues</u>  |                          |                          |
| a. Are all issues from the warehouse/storeroom evidenced by requisitions signed by authorized persons? (DOD 7000.14-R, vol.13, app. C, para. C050905, C051202D, and C050905; RAMCAS User Handbook, duty IV, task 2)          | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are issuances recorded on the stock record cards or automated inventory control records? (DOD 7000.14-R, vol. 13, app. C, para. C050905A and C0604C); RAMCAS User Handbook, duty IV, task 3)                              | <input type="checkbox"/> | <input type="checkbox"/> |
| 8.35. <u>Physical Inventory</u>  |                          |                          |
| a. Does the activity take a physical inventory of all departmental resale inventories at the close of the accounting months of December, March, June, and September? (RAMCAS User Handbook, section C, accounts 151 and 152) | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are central storeroom inventories conducted at the close of the accounting month of December, March, June, and September? (RAMCAS User Handbook, section C, accounts 151 and 152)   | <input type="checkbox"/> | <input type="checkbox"/> |

Yes    No

- c. Do the inventory sheets indicate a low rate of discrepancies between the count and the stock records or automated inventory control records? (DOD 7000.14-R, vol. 13, app. C, para. C051205 and C0604C) ☐ ☐
- d. Are each of the inventory sheets signed by those conducting and observing the inventory? DOD 7000.14-R, vol. 13, app C, para. C051302) ☐ ☐
- e. Are the stock record cards or automated inventory control records adjusted to agree with the physical inventory? (DODINST 7000.14-R, vol. 13, app. C, para. C051205F and C051302) ☐ ☐
- f. Does management make surprise counts of those items which have repeatedly been found to be short, and has management taken action to correct the reasons for the shortages? (DOD 7000.14-R, vol. 13, app. C, para. C051205) ☐ ☐

#### 8.4. Retail Accountability

a. Retail accountability is a system of control over sales of resale merchandise from inventory that utilizes inventory usage figures to compute sales independently from money, tickets, or cash register tapes. To compute expected sales to determine if all sales were recorded, the value of both the beginning and ending inventories, and any merchandise delivered during the accounting period, are figured at their selling prices to the patron. The formula for this computation is



beginning inventory (At Retail Selling Price)  
+ any Merchandise Received (At Retail Selling Price)  
- ending Inventory (At Retail Selling Price)  
= sales.

For example: If the total of the price tags on merchandise in a department is \$1,500, and goods are received that will sell at retail for \$3,000, an inventory taken at any time will show (to the penny) what the sales should have been. In this example, if the ending inventory was \$2,800, the sales amount should have been \$1,700. ( $\$1,500 + \$3,000 - \$2,800 = \$1,700$ .)

b. This system works best when a predetermined selling price can be established for each unit sold

c. Any bar retail accountability forms reflecting a shortage as well as those reflecting an overage in excess of 5 percent should show evidence of investigation by management, and any necessary follow-up action or accounting adjustments.

8.41. Procedures. **(Priority (1))** The following procedures are used to review controls over bar and food retail accountability systems:

Bar Retail Accountability. The person assigned to test bar retail accountability should obtain completed bar retail accountability sheets and corresponding register tapes for all bars to be tested, and perform the following steps during the latest 3 month period.

a. The forms used to control inventory and computer sales should be reviewed for accuracy of computations, completeness, evidence of management review, and evidence of investigation of any reflecting an overage in excess of 5 percent, or any shortage.

b. The bar sales figure computed based on inventory usage should be traced to the DAR and corresponding register tape or, if a register is not used the locally maintained records of bar sales.

c. Any bar retail accountability forms, reflecting a shortage as well as those reflecting an overage in excess of

5 percent, should show evidence of investigation by management, and any necessary follow-up action or accounting adjustments.

Food Retail Accountability

a. There are several different ways to control food inventory. In a snack bar the most efficient way is to use a weekly cost to sales percentage. A weekly inventory is conducted to compute inventory depletion at cost. This figure should be divided into sales to compute the weekly cost as a percentage of sales figures. This figure should be monitored and investigated when deviations occur in excess of 3 percent, in either direction, a shortage or an overage. The person assigned should review these documents and ensure the computations are correct and there is evidence of management review. All deviations in excess of 3 percent should show evidence of investigation and resolution.

b. For other dining room/kitchen operations one of two methods is suggested

(1) Sensitive Item Inventory - An inventory of high cost food items should be completed, at minimum, weekly. The inventory usage figure should be compared to the record of items sold figure per the cash register and scatter sheet to ensure all high cost inventory used per kitchen records was properly recorded as a sale.

(2) Daily Inventory - A record of items prepared and served per kitchen records, extended at retail by the chef and turned in to management. The cashier's record of sales, also turned in to management, should be compared to the expected sales per the kitchen records to ensure no discrepancies exist. This should be combined with a weekly inventory to verify the chef's inventory figures.

(3) The person assigned should review these documents for the latest 3-month test period to ensure the computations are correct, and separation of function is in place. The cashier and chef should not have access to each other's computations or amounts.

c. Any food retail accountability forms reflecting excessive overages or shortages should show evidence of management investigation and resolution.

8.42. Internal Control Questionnaire

8.421. <u>Bar Retail Accountability</u>	<u>Yes</u>	<u>No</u>
a. Are bar retail accountability inventories conducted as often as necessary, and at a minimum, monthly? (BUPERSINST 1710.13A, para. 307 and app. A)	<input type="checkbox"/>	<input type="checkbox"/>
b. Is separation of functions maintained, i.e. does someone other than the bartender/cashier (persons without access to inventory or cash) take the physical inventory? In a small activity with limited personnel it may be necessary for the bartenders to conduct the inventory. In these instances, management must ensure the bartenders do not have access to sales figures and monitor to detect any discrepancies between the ending inventory from one shift and the beginning inventory for the next shift. (DOD 7000.14-R, vol. 13, chap. 9, para. 090202)	<input type="checkbox"/>	<input type="checkbox"/>
c. Are inventory sheets signed by the person taking the inventory? (DOD 7000.14-R, vol. 13, app. C, para. C051205)	<input type="checkbox"/>	<input type="checkbox"/>
d. Are discrepancies between inventory and sales investigated? (BUPERSINST 7010.13, app. A)	<input type="checkbox"/>	<input type="checkbox"/>

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| e. Are all shortages investigated?<br>(DOD 7000.14-R, vol 13, app. C,<br>para. C051205; BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are the bar retail accountability<br>forms properly completed?<br>(BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Are bar retail accountability<br>forms containing the names of the<br>items carried, size of the bottle<br>or container, cost per ounce<br>(milliliter) and retail selling<br>price per ounce (milliliter),<br>utilized? (BUPERSINST 1710.13A) | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Is the name of the bartender,<br>who operated the bar station during<br>this period, entered in the<br>appropriate space? (BUPERSINST<br>1710.13A)   | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Is the bartender held responsible<br>for minimum expected income?<br>(BUPERSINST 1710.13A)   | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Is some type of accurate<br>measuring device used to dispense<br>alcohol? (BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Have drinks been costed to ensure<br>the selling price will generate the<br>overall profit margin goal as<br>established? (BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Is cost per ounce (milliliter)<br>determined by dividing price per<br>bottle by the number of ounces<br>(milliliters) in the bottle?<br>(BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| m. Have the drink sizes and recipes been standardized and copies given to all bartenders? (BUPERSINST 1710.13A)   | <input type="checkbox"/> | <input type="checkbox"/> |
| 8.422. <u>Food Retail Accountability</u>  |                          |                          |
| a. Are food retail accountability inventories conducted, at minimum, weekly? (BUPERSIST 1710.13A)   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is separation of functions maintained i.e., does someone other than the cashier or cook (persons without access to inventory or cash) perform the physical inventory? In a small activity with limited personnel it may be necessary for the kitchen personnel to conduct the inventory. In these instances, management must ensure the inventory takers do not have access to sales figures and monitor to detect any discrepancies between the ending inventory from one shift and the beginning inventory for the next shift. DOD 7000.14-R, vol. 13, chap. 9, para. 090202). | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are inventory sheets signed by the person conducting the inventory? (DOD 7000.14-R, vol. 13, app. C, para. C051205)  | <input type="checkbox"/> | <input type="checkbox"/> |
| d. For snack bars are variations over/under 3 percent in the cost as a percentage of sales investigated? (BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| e. For other dining facilities, are excess overages or shortages investigated? (DOD 7000.14-R, vol. 13, app. C, para. C051205; BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are the food retail accountability forms properly completed? (BUPERSINST 1710.13A)  | <input type="checkbox"/> | <input type="checkbox"/> |
| g. For facilities other than snack bars are Food Retail Accountability forms containing the names and size of the items carried, per serving cost and retail selling price per serving utilized? (BUPERSINST 1710.13A) | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Is the name of the cook who operated the kitchen during this period, entered in the appropriate space? (DOD 7000.14-R, vol. 13, app. C, para. C051205)  | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Is some type of accurate portion control in effect? (BUPERSINST 1710.13A)   | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Have menus been costed to ensure the selling price will generate the overall profit margin goal as established? (BUPERSINST 1710.13A)   | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Have the portion sizes and recipes been standardized and copies given to all cooks? (BUPERSINST 1710.13A)   | <input type="checkbox"/> | <input type="checkbox"/> |

## Section 9. FIXED ASSETS

9.1. Objectives. For an item to be classified as a fixed asset, it must have an acquisition value of \$1,000 or more and a life expectancy of 2 to 40 years as prescribed in the RAMCAS User Handbook, pages B-43 and C-43 through C-51.

a. The physical inventory verification should be performed for the inventory being conducted. Names and positions of the personnel participating in the inventories should be documented as part of the official inventory records to validate each inventory conducted. Property at specific locations or in the custody of a particular activity may be reviewed separately from property at other locations or in the custody of other activities.

The three important factors are

(1) all property should be physically inventoried by the activity during each fiscal year.

(2) people assigned should be independent of the inventory custody and should observe and test count the inventory.

(3) physical inventory plan must assure complete control to preclude the possibility of property being substituted.

b. Fixed assets are reviewed to ascertain

(1) effectiveness of internal controls over fixed assets.

(2) accuracy of the physical counts of the fixed assets.

(3) adequacy and accuracy of property records.

(4) propriety of depreciation charges.

(5) correctness of the amounts reported on the balance sheet.

(6) timeliness of adjustments to correct the account balances.

9.2. Procedures. **(Priority (1))**

9.21. Observation of Inventory. Prior to commencing the inventory, the person assigned should obtain a complete listing of all NAF property items by name, location, and property number. Using this listing, select items to be test counted and enter the information on a worksheet. Immediately after the inventory board or activity personnel have completed their count of the selected items, enter their count on the worksheet. The person assigned should then count the selected items and record the count on the worksheet. Determine that APF assets are not counted as NAF assets. Should there be a difference, recount to determine which count is correct and enter the correct count. The count made by activity personnel/inventory board is not corrected in the workpapers since the purpose of this part of the review is to test the accuracy of the work done by them.

a. Errors should be described on the worksheet and discussed with management, not with inventory personnel. Should the person assigned conclude that the physical inventory is unacceptable, the person assigned should arrange with management for another physical inventory to be conducted. Any reinventory should be preceded by training and planning to correct the physical inventory process.

b. During observation of the inventory, the people assigned should also

(1) determine whether inventory numbers of a permanent nature have been assigned and affixed to all non-expendable property, and

(2) verify that property inventoried does not include unserviceable or excess items (these items should be disposed of per current directives).

9.22. Property Over and Short. After the inventory has been posted to the property and depreciation records the person assigned should list material overages and shortages by item on a worksheet. These should be investigated to determine the cause using the methods outlined in DOD 7000.14-R, volume 13,



appendix C, paragraph C051205F.5. Any deficiencies should be entered in the work papers.

9.23. Verification of Depreciation and Book Value

a. Verify whether adequate property and depreciation records have been established for all nonexpendable NAF property and determine the accuracy and completeness of the information contained thereon, including use of RAMCAS prescribed useful lines.

b. Verify whether all NAF acquisitions, dispositions, and property adjustments made during the review period have been properly approved.

c. The persons assigned should run an adding machine tape on all property record files. This tape should be subdivided by category, acquisition year, and location (if necessary) to determine the accuracy of the data recorded on the depreciation schedules. At the beginning of each fiscal year, the people assigned should reconcile the total value and the accumulated depreciation for all fixed asset accounts to the balances on the detail general ledger. Any differences should be investigated and documented to support the recommendations.

9.24. Rental/Issue Property. This property may be a fixed asset or expendable (changed to prepaid supplies or supplies). The person assigned should review procedures and controls over property that is rented or issued to patrons/employees to ascertain whether

a. property rented or issued to patrons/employees is evidenced by signed receipt documents.

b. time period for which property is rented or issued to a patron does not result in depriving another of its use.

c. controls are in effect to encourage the return of rental/issue items.

d. procedures exist to check property for damage when returned and that users are required to reimburse the activity for damages.

- e. rental charges are collected and properly recorded.
- f. deposits are recorded in the records and are refunded to the patrons.
- g. rental/issue property is inventoried at least once a year.

9.3. Internal Control Questionnaire. Many of the Yes No questions in section 5.31 are applicable to the purchase of nonexpendable property. It need not be repeated for the review of non-expendable property provided the same organization procures both resale merchandise and nonexpendable/expendable property. Otherwise the activity should use the procedure in paragraph 5.2 and complete the internal control questions in section 5.31. In addition to the above, complete the following:

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| a. Is a Property and Depreciation Record (NAVCOMPT 742) maintained for each item or number of like items; or is there a Base Level Automation System (BLAS) subsidiary listing all of the fixed assets? (DOD 7000.14-R, vol. 13, app. C, para. C051202 and C0604B)     | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Does the NAVCOMPT 742 or the BLAS subsidiary show yearly depreciation and accumulated depreciation to the end of the current fiscal year? (DOD 7000.14-R, vol. 13, app. C, para. C051202A and C0604; RAMCAS User Handbook, duty IV, task 7, page B-55 through B-58) | <input type="checkbox"/> | <input type="checkbox"/> |
| c. If used, are NAVCOMPT Forms 742 kept separate from inventory stock record cards or automated inventory control records? (DOD 7000.14-R, vol. 13, app. C, para. C0604)   | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are the records of assets purchased with APF kept separate from records   |                          |                          |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| of assets purchased with NAF? (DOD 7000.14-R, vol. 13, app. C, para. C051202 and NAVCOMPT Manual, volume 3, chapter 6)   | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are all NAF fixed assets tagged to indicate activity ownership? (DOD 7000.14-R, vol. 13, app. C, para. C051202A)  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are the activity's NAF fixed assets safeguarded to protect them from unauthorized use and destruction? (DOD 7000.14-R, vol. 13, chap. 9)  | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Do activity personnel perform a yearly physical inventory of fixed assets, including those used by concessionaires? (DOD 7000.14-R, vol. 13, app. C, para. C051205C)  | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Does inspection of the inventory sheets or records prepared by activity personnel indicate that the inventory was adequately planned, supervised, properly documented and reasonably accurate? (DOD 7000.14-R, vol. 13, app. C, para. C051205E) | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Are all purchases of fixed assets approved by an appointed contracting or procurement officer? (DOD 7000.14-R, vol. 13, app. C, para. C050801B)   | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Has excess or under-utilized property been identified by management? Has management justified its retention, or disposed  |                          |                          |

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| of such property as prescribed by regulations? (DOD 7000.14-R, vol. 13, app. C, para. C051202 and C051204)   | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Is accountability for gear issued to patrons and sensitive items issued to employees evidenced by a property receipt? (DOD 7000.14-R, vol. 13, app. C, para. C051202 and C0604) | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Are the controls applicable to rental charges adequate to assure collection and deposit? (DOD 7000.14-R, vol. 13, app. C, para. C0507)  | <input type="checkbox"/> | <input type="checkbox"/> |

**PART E**  
**STANDARDS OF CONDUCT**  
**AND GOVERNMENT ETHICS**

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Section 10. STANDARDS OF CONDUCT AND GOVERNMENT ETHICS

10.1. Objectives. The review for compliance with the Standards of Conduct and Government Ethics is important to ensure that all personnel at the local activities abide by Navy's prescribed standards. Therefore, it is essential that all persons assigned understand the latest guidance and regulations as outlined in DOD 5500.7-R and BUPERSINST 5300.10.

a. Responsibility and accountability for ensuring compliance with prescribed required standards of ethical conduct governing all personnel assigned to their respective commands are placed upon COs and their subordinate supervisors. They are responsible for ensuring their personnel comply with financial disclosure reporting requirements and procedures; conflict of interest statutes applicable to certain present and former employees; and bedrock standards of conduct.

b. Violations of the provisions of DOD 5500.7-R and BUPERSINST 5300.10 are punishable per Uniform Code of Military Justice (UCMJ) for military personnel and is the basis for appropriate disciplinary procedures for civilian employees. Noncompliance with other provisions of the instructions are expected to be corrected by timely administrative action.

c. Compliance with standards is reviewed to identify any instances of noncompliance and report them for management's attention and appropriate remedial or administrative action. In some cases, it may become necessary to report violations to the appropriate Naval Criminal Investigative Service (NCIS) Agency.

10.2. Procedures. **(Priority (2))** The local activity's staff should review the established naval regulations for ensuring Standards of Conduct and Government Ethics and their application at the local activity. Local procedures for ensuring compliance should be reviewed and evaluated by the command evaluation and review staff or review board to determine if they are adequate to carry out the established Naval regulations. All deficiencies should be documented in the working papers. The purpose of the procedures is to examine the local activity's records and related supporting documents to verify that

- a. Proper conduct is exercised with respect to official activities.
- b. Personnel at the local activity avoid conduct prejudicial to the government.
- c. Activity personnel strictly adhere to the standards of conduct regarding the exercise of personal judgment.
- d. Employees in a position of trust observe the highest ethical standards in dealings with business and industry representatives.
- e. No special treatment is accorded to particular individuals or firms, unless equivalent treatment is also accorded to other justifiably entitled individuals or firms.
- f. Command maintains a list of key employees required to file financial disclosure statements; that they are on file for the latest period; and results of any investigations or explanations of any apparent conflicting financial interests are on file. Verify that the statements include business entities in which they and their spouses, minor children, and household members have an interest.
- g. Employees are prohibited from holding a position of trust or responsibility in a private association or organization, or undertaking activities on its behalf that could conflict with their official duties.
- h. Violations of a statute or standard of conduct imposed by Navy regulations are brought to the attention of the appropriate command authority.
- i. CO or activity heads promptly resolve standards of conduct violations per proper criminal or administrative procedures.
- j. Activity displays the Code of Ethics for Government Service poster at appropriate facilities and offices, particularly high employee traffic areas.

10.3 Internal Control Questionnaire

Yes      No

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Does the local activity have the latest edition of DOD 5500.7-R on file?   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Has the local command reviewed the established regulations for ensuring ethics and their application the local MWR activity with key staff members during the past 12 months? (DOD 5500.7-R)     | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Does the local MWR activity maintain a list of designated key personnel who are specifically required to file annual statements of compliance with 10.2? (BUPERSINST 5300.10)                    | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are signed statements on file for each designated key MWR employee attesting that they know and understand the "bedrock standards of conduct and government ethics"? (DOD 5500.7-R)              | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Does the local command have procedures, such as command inspections and internal controls reviews, in effect to ensure proper conduct is exercised with respect to official MWR fund activities? | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are MWR personnel at the local activity specifically required to avoid conduct prejudicial to the government, such as using their Navy office for private gain? (BUPERSINST 5300.10)             | <input type="checkbox"/> | <input type="checkbox"/> |



- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| g. Are any cases recorded at the activity whereby adverse action has been taken against activity personnel for not adhering to the standards of conduct regarding the exercise of personal judgment? (DOD 5500.7-R)  | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Have MWR employees in a position of trust been instructed to observe the highest ethical standards in dealing with business and industry representatives? Are any violations noted on the MWR activity's records? (DOD 5500.7-R)                        | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Are all required financial disclosure statements on file for all MWR employees for the latest period? (DOD 5500.7-R)  | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Are the results of any investigations or explanations of any apparent conflicting financial interests pertaining to MWR employees on file? (DOD 5500.7-R)   | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Do the statements of financial disclosure include any business entities in which the MWR employees/ their spouses, minor children, and household members have an interest? If there are such interests, are they explained and approved? (DOD 5500.7-R) | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Are MWR employees prohibited from engaging in conflict of interest positions with private associations  |                          |                          |

Yes      No

or organizations? For example, an MWR officer or manager may not hold a position of trust or responsibility in an insurance company or an employee welfare and benefit association, that sells insurance to its members, since the official duties of the officer or manager may require the exercise of control over the issuance of insurance within the command's MWR program. Are there any records of such positions on file that require further investigation or explanation? (DOD 5500.7-R)

☐      ☐

- m. Have any violations of the statute or standard of conduct by an MWR employee been reported to the attention of the appropriate command authority, e.g. ethics counselor? Were they resolved promptly? (DOD 5500.7-R)

☐      ☐

- n. Does the local MWR activity display the Code of Ethics for Government Service poster at appropriate high employee traffic areas? (DOD 5500.7-R)

☐      ☐

10.4. Amusement Machines (formerly Concessions) - Introduction. Amusement machines may be placed in recreational facilities if authorized by the CO. Such machines are described as music, pinball, electronic games, and other types of coin operated devices. The machines may be owned by the local NAF activity or placed in the activity pursuant to a contract with NEXCOM or a private contractor. Ownership of amusement machines requires the technical skills and repair parts to maintain them, with little down time. Electronic game machines require frequent game format changes to keep current with patron interest. Many local activities find it more profitable to negotiate contracts with concessionaires or NEXCOM, rather than own machines, which

require frequent maintenance and updating. Any concessionaire arrangements must be evidenced by contract: (BUPERSINST 7043.1B, chapter 4).

10.41. Procedures

a. Review the contracts for command approval and the following provisions:

(1) Identification of the type, number and location of machines or description of service.

(2) Frequency of machine harvest, and right of the activity to collect the harvest jointly with the concessionaire.

(3) Right of the activity to read cash register tapes and perform other audit steps to determine the accuracy of reported sales, if income is based on sales.

(4) Method of computing the income earned by the activity.

(5) Frequency of payment of concessionaire.

b. Person assigned to the review should conduct a count of the number of machines to verify conformance with the contract, and determine if there are any machines other than those contracted or owned.

c. The person performing the review should review the activity's records of harvests, meter readings, and collected income.

d. Selected harvests should be observed to determine the effectiveness of the activity's participation and verification (items (2) and (3) above).

e. If possible, the number of plays, harvested amounts, and income should be compared with the results of other NAF activities on the base, and similar NAF activities at nearby bases.

f. The NAF activity's management of concessionaires other than those operating amusement machines should also be examined

to ascertain its effectiveness in collecting income as specified in the contract.

10.42. Internal Control Questionnaire

10.421. <u>Contract Considerations</u>	<u>Yes</u>	<u>No</u>
a. Was an analysis made to determine the most economical and effective method of acquiring amusement machines?	<input type="checkbox"/>	<input type="checkbox"/>
b. Were relative costs and anticipated rates of return computed for each alternative?	<input type="checkbox"/>	<input type="checkbox"/>
c. If a revenue sharing ratio with a contractor was used, does it result in a reasonable rate of return?	<input type="checkbox"/>	<input type="checkbox"/>
d. Was a single contract negotiated for all of the base's NAFIs to allow a greater bargaining advantage?	<input type="checkbox"/>	<input type="checkbox"/>
e. Are written contracts available to support all contractor owned machines?	<input type="checkbox"/>	<input type="checkbox"/>
f. Are provisions included in the contract to ensure sufficient machine turnover to maintain current/popular machines?	<input type="checkbox"/>	<input type="checkbox"/>
g. Are required accuracy tolerances specified in the contract for meters used to count cash receipts?	<input type="checkbox"/>	<input type="checkbox"/>
h. Are incoming inspections conducted to determine if all machines are equipped with nonresettable coin-in (play) meters?	<input type="checkbox"/>	<input type="checkbox"/>

	<u>Yes</u>	<u>No</u>
i. Are all contracts current and properly authorized?	<input type="checkbox"/>	<input type="checkbox"/>
j. Are procurement, receiving and payment authorization functions separate to ensure all amusement machine contracts are processed properly?	<input type="checkbox"/>	<input type="checkbox"/>
k. Are only those machines specifically designated in the properly authorized contracts in use at the NAFIs to prevent use of unauthorized amusement machines?	<input type="checkbox"/>	<input type="checkbox"/>
10.422. <u>Revenue Evaluation</u>		
a. Do revenue and income trends indicate that amusement and vending machines are providing a reasonable return on investment?	<input type="checkbox"/>	<input type="checkbox"/>
b. Are amusement machines located in convenient areas with adequate safeguards to attract a large number of players?	<input type="checkbox"/>	<input type="checkbox"/>
c. Are revenues from machines evaluated to identify those which do not generate enough income to justify their continuation?	<input type="checkbox"/>	<input type="checkbox"/>
d. Are low volume machines rotated to other areas to determine if they can generate higher revenues?	<input type="checkbox"/>	<input type="checkbox"/>
e. Are all revenues collected credited to account number XX-501-13 (Amusement Machines-Fund Owned) or		

Yes      No

XX-592-XX (Amusement Machines-  
Commissions) and reported on the  
DAR?

☐      ☐

- f. Are only those expenses directly  
related to amusement machines  
charged to the amusement machines  
accounts?

☐      ☐

10.423. Cash Controls

- a. Is a schedule maintained showing on  
what dates machines are to be  
harvested?

☐      ☐

- b. Are machines scheduled to be  
harvested at a minimum of once each  
week and on the last work day of  
each month?

☐      ☐

- c. Are collections monitored against  
the harvest schedule to assure that  
collections are made on a timely  
basis?

☐      ☐

- d. After the machines are harvested,  
are collection reports compared to  
the contract to ensure that all  
machines are accounted for and is  
evidence of each comparison  
documented?

☐      ☐

- e. Are records of machines harvested  
compared to the contract to identify  
any machines not covered by the  
contract?

☐      ☐

- f. Do cash count reconciliation records  
maintained for each machine include:  
meter readings, cash receipts  
amounts, overages or shortages vice

	<u>Yes</u>	<u>No</u>
meter readings, dates recorded, and the name and job position of the person taking the reading?	<input type="checkbox"/>	<input type="checkbox"/>
g. For contractor owned machines, are cash collections made by a minimum of the activity where the machines are three authorized persons, including one from located and one of whom is the contractor or other person independent from the preparation of accountability reports?	<input type="checkbox"/>	<input type="checkbox"/>
h. Are mechanics precluded from being used as cash verifiers?	<input type="checkbox"/>	<input type="checkbox"/>
i. Are meter readings recorded and initialed by one person, and verified/signed by another person?	<input type="checkbox"/>	<input type="checkbox"/>
j. Are cash receipts reconciled with meter count totals each time machine cash boxes are emptied?	<input type="checkbox"/>	<input type="checkbox"/>
k. Are significant fluctuations (for example over \$5) between amounts collected from individual machines investigated and reasons documented? (Fluctuations under \$5 should be noted.)	<input type="checkbox"/>	<input type="checkbox"/>
l. Are cash receipts compared with amounts due and summarized on a regular basis (daily, weekly, monthly, depending on volume) using a matrix or other trend table to review the receipts history for each machine?	<input type="checkbox"/>	<input type="checkbox"/>

	<u>Yes</u>	<u>No</u>
m. Are cash receipts overages and shortages reported by location for management review and approval?	<input type="checkbox"/>	<input type="checkbox"/>
n. Are "slow play" machines that are not used much identified to obtain replacements?	<input type="checkbox"/>	<input type="checkbox"/>
o. Are machines identified as having recurring problems with defective meters taken out of service, and arrangements made for repair or replacement?	<input type="checkbox"/>	<input type="checkbox"/>
p. Are machines reported to have defective meters transferred to other supervisory areas to determine if the same problems are reported to verify that the meters are in fact defective?	<input type="checkbox"/>	<input type="checkbox"/>
q. Do duty cashiers issue amusement machine malfunction refunds from a change fund established for that purpose on locally accountable, prenumbered forms?	<input type="checkbox"/>	<input type="checkbox"/>
r. Are copies of refund sheets forwarded to the accounting office in support of the coin harvested summary report?	<input type="checkbox"/>	<input type="checkbox"/>
10.424. <u>Physical Security</u>		
a. Do all amusement machines, including coin changers, have a minimum of two unique locks, where the cash box keys are different from keys used for the access panel?	<input type="checkbox"/>	<input type="checkbox"/>
b. Are cash box keys for fund-owned machines, as well as mechanics' keys		



	<u>Yes</u>	<u>No</u>
that allow access to the cash box, stored in a secured office (designated by the local installation manager) other than the same office where the machines are located?	<input type="checkbox"/>	<input type="checkbox"/>
c. Are cash box keys and the mechanics' keys for contractor owned machines retained by the local activity manager, and are the access panel control keys maintained by the contractor?	<input type="checkbox"/>	<input type="checkbox"/>
d. Are game rooms secured at the close of each business each day to prevent unauthorized access to the machines?	<input type="checkbox"/>	<input type="checkbox"/>
e. Do machines which are not located within game rooms have additional locks/bars over the access panel to provide extra security?	<input type="checkbox"/>	<input type="checkbox"/>
f. For contractor owned machines, do both the contractor and the cash verifiers insure that all cash boxes and access control panels are secured and attested to by signing a control log before leaving the game room?	<input type="checkbox"/>	<input type="checkbox"/>
g. For fund-owned machines, do both the local activity manager and the cash verifiers insure that all cash boxes and access control panels are secured before leaving the game room?	<input type="checkbox"/>	<input type="checkbox"/>
10.425. <u>Inventory Control</u>		
a. Are records maintained for each machine received and accepted?	<input type="checkbox"/>	<input type="checkbox"/>

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| b. Do records for machines contain complete information for each machine including: date received, item description, serial number of the machine, NAF inventory control number, and location? | <input type="checkbox"/> | <input type="checkbox"/> |
| c. When machines are installed, removed or relocated, is the manager, or inventory control clerk, notified in writing on a timely basis with the effective date and machine serial number?     | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are inventory records updated whenever notices are received that machines are installed, removed or relocated?  | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are inventory records updated for downtime due to machine malfunctions, maintenance servicing, etc.?  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. For fund-owned amusement machines, are machines inventoried and property numbers compared to inventory records to determine whether only authorized machines are in use?                    | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Are exceptions discovered during physical inventories, of machines in service vice inventory control records, reported to NAFI management?  | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Are exceptions investigated and adjustments made to inventory stock records and accounting records, if necessary?   | <input type="checkbox"/> | <input type="checkbox"/> |

10.426. Coin Changers

- |   | <u>Yes</u>               | <u>No</u>                |
|---|--------------------------|--------------------------|
| a. Are coin changers equipped with two unique locks and keyed separately?   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are keys to coin changers kept in the custody of two different people?   | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are restrictions in place to ensure that coin changers are not emptied, refilled, and meter readings recorded by no less than two people?                                  | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are prenumbered vouchers used during coin changer refills, which include: the date and amount of refill, meter reading, and signatures of the reader and verifier?         | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Are change fund amounts sufficient and available for coin changer refills when needed, thereby minimizing disruption of machine operation?                                 | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Are records maintained of amounts and frequency of coin changer refills to evaluate the adequacy of available change fund amounts on a continuing basis?                   | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Are shortages from coin changers investigated, reasons documented, reported for management review and approval, and replenished on a weekly or monthly basis, as required? | <input type="checkbox"/> | <input type="checkbox"/> |

10.427. Count Room Security

- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| a. Are all monies counted in a secure area?  | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Is security adequate for money that is transported from game rooms to a centralized count area?                 | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Are security personnel used to escort daily money pick-ups (in excess of \$1,000) from one building to another? | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Are records of counting machine down time maintained and reported for NAFI management attention?                | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Where count rooms are used, is adequate security in use to protect command funds?                               | <input type="checkbox"/> | <input type="checkbox"/> |
| f. In high volume areas, are closed circuit, video cameras in use within the count room?                           | <input type="checkbox"/> | <input type="checkbox"/> |

10.428. Verifications

- |   |                          |                          |
|---|--------------------------|--------------------------|
| a. Are monthly verifications conducted to compare reconciliations of cash counts against transaction receipts due according to meter readings, and are they substantiated by meter reading records?                 | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Are surprise cash counts conducted by the local board or local command evaluation or audit staff at least once annually to: observe cash collections; verify whether meter readings are recorded properly; etc.? | <input type="checkbox"/> | <input type="checkbox"/> |

### COMMON MWR FINDINGS

1. The following are areas in which deficiencies in internal controls were reported by NAVPERSCOM (PERS-65) and the CPA firm under contract to NAVPERSCOM (PERS-65). These deficiencies are common to many of the NAFIs and are provided to assist MWR activities in focusing on areas where continuing attention is required.

a. Local command evaluation fiscal reviews and audits were just not done, or were substantially incomplete. The same applies for management control reviews and vulnerability assessments, which are required by OPNAVINST 5200.25C. Local command and MWR managers responses to recommendations were not timely; many NAFIs exhibited slow progress to begin corrective action and initiate needed improvements.

b. High value fixed asset inventories were not done properly or were incomplete, e.g. million dollar account balances were not verified to determine the current value of assets actually in custody of the activity. The same custodian counted own stock - no one checked the figures to validate the inventory; independent verification by another individual was not performed (i.e., two people should conduct the inventory); serious shortages were discovered, resulting in substantial inventory write-offs and accounting corrections. Slow-moving and obsolete items were carried in the inventory taking up space (should be sold off, e.g. at reduced prices, or transferred to other NAFIs or to the local Defense Reutilization Marketing Office (DRMO)). Accounting adjustments were not done for several months, resulting in reported inventory values being over/understated resulting in inaccurate financial reports.

c. Purchase orders were prepared after ordering items (should be "before"); costly supplier invoice increases above authorized purchase order prices were not approved. No contract review board approval obtained for major purchases. Required competitive bidding procedures were not used to secure lowest prices i.e., favored customers given business without allowing others to compete, often without approved sole source justification.

d. Improper separation of purchasing and receiving duties was practiced, i. e, same person orders and receives items,

providing opportunity to misappropriate money, equipment, merchandise, etc. Also, unauthorized individuals committed activities to unwanted purchases, and accepted excess shipments. This classic control problem provided an easy way to defraud the MWR fund, e.g., the same person who orders items, receives and removes them, and no one is the wiser. Appointment letters were not on file to designate the authorized purchasing and receiving employees.

e. Cash register overrings were not approved and cashiers served as the designated readers of their own cash register tapes, i.e. same person collects the cash and corrects the errors with no one checking. Incorrect and unapproved DARs were evident. Cash receipts from sales of MWR services were not deposited into the bank on a timely basis. (Bad control, easy opportunity for fraudulent activity).

f. Private party income from club functions was not recorded as cash receipts or not deposited at all. Agreements were not signed by party sponsor (e.g., authorized club patron) and club manager to aid collection efforts. No evidence of checking to make sure all receipts due from scheduled functions were collected or turned in; provided opportunity for possible theft of patron's payments for club services.

g. Sales promotion merchandise (particularly sporting goods and beverages) given as bonuses to the MWR department to promote the suppliers' products were not recorded in the MWR fund's stock records, i.e., no evidence to show receipt. If not recorded or controlled, highly marketable resale merchandise could go "walking out the door."

h. Accounts receivable due the MWR fund not tracked until too late to collect. Should be monitored monthly and any over 6-months past due should be collected or written-off the accounting records with the CO's prior approval.

i. Prompt payment discounts were not taken when offered on invoices by suppliers, resulting in lost money.

j. Incomplete or no subsidiary records were maintained to support reported control account balances, e.g., no backup records to support large dollar amounts reported on MWR fund financial statements, such as missing supplier invoices to

support payments, no sales records to support receivables from patrons, etc. Unsupported amounts could be faked to make the fund's financial results appear to look good, i.e., deceive chain of command reading reports. Monthly reconciliation's to identify unsupported or overstated account balances were not done, not approved or not reported as still open. Accounting adjustments were not done promptly causing inaccurate reporting, and loss of financial integrity and management's credibility.

k. Resale merchandise inventory control account balances were understated and not checked or priced properly. No records were available to show someone checked inventories other than the storekeeper, or test counted by an impartial observer, to validate the inventory. Records of inventory participants were not maintained to show inventories were completed according to regulations.

l. Payroll administration problems were evident, e.g., paying employees based on scheduled time instead of actual hours worked; no advance approval of overtime; supervisor's approval missing on time sheets, etc. Annual payroll distribution audits to detect for possible unauthorized employees on payroll were not done, e.g., manager could continue to receive and cash paychecks for a terminated employee and pocket the money.

2. In addition, the following areas of concern deserve special attention for inclusion in local fiscal oversight and reviews:

a. Improper use of APF for MWR programs was noted. For instance, any violations of the prohibited use of APF for recreation facilities or clubs should be reported, particularly for any unauthorized major construction/renovation projects needing Congressional approval.

b. Unauthorized APF was used for MWR program business activities (MWR Category C) revenue-generators contrary to guidance put out in NAVCOMPT's Helpful Hints for APF for MWR services.

c. Overspending for MWR programs that don't make good business sense, or the costs exceeded the benefits was found, e.g., staffing work shifts that had little or no sales activity at food or bar operations, pumping money into a golf course or hobby shop that were not used, etc.

d. Self-sufficiency (break-even) status of Category C MWR activities and component departments was not being monitored and no Plan of Action and Milestones (POA&M) was available in an effort to achieve full self-sufficiency. Any MWR funds approaching deficit cash positions need attention and realistic action plans. They drain funds from the limited NAF financial resources available to help other MWR activities.

e. Underachievement of the Navy's cost of goods sold targets for club food (40 percent) and bar (25 percent) operations was found at many activities. No POA&Ms were evident to show action plans to help achieve the Navy's standards. The goals are attainable for most activities, if not, excessive costs may indicate serious staffing or purchasing problems and other inefficiencies needing correction.

f. USA program funding was not used fully for appropriated fund offsets for eligible MWR fund nonappropriated fund expenses. Required Memorandum of Agreement (MOA) between the CO, MWR director and base comptroller was not executed properly at the beginning of the fiscal year. USA program funds were not pursued or used to fund ineligible expenses. Inadequate local tracking procedures to ensure APF offsets for eligible NAF expenses were obtained on a timely basis.



**STANDARDS OF CONDUCT  
AND GOVERNMENT ETHICS  
SAMPLE OF STATEMENT OF COMPLIANCE**

MEMORANDUM FOR

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Subj: BEDROCK STANDARDS OF CONDUCT FOR DEPARTMENT OF THE NAVY  
PERSONNEL

Ref: (a) DOD 5500.7-R of Aug 93, Joint Ethics Regulations

1. To maintain public confidence in the integrity of the Department of the Navy (DON), which is essential to the performance of its mission, I have reviewed reference (a) and am aware of the following standards of conduct:

a. I will avoid any action, whether or not specifically prohibited, which might result in or reasonably be expected to create the appearance of

- (1) using public office for private gain;
- (2) giving preferential treatment to any person or entity;
- (3) impeding government efficiency or economy;
- (4) losing complete independence or impartiality;
- (5) making a government decision outside official channels; or
- (6) adversely affecting the confidence of the public in the integrity of the government.

b. I am aware of the requirement to not engage in any activity or acquire or retain any financial interest, which would result in a conflict between my private interest and the public interest of the United States related to my duties.

c. I will not engage in any activity that might result in or reasonably be expected to create the appearance of a conflict of interest.

Enclosure (3)

d. I am aware of the following prohibitions against:

- (1) Accepting gratuities from defense contractors.
- (2) Using my official position to influence any person to provide any private benefit.
- (3) Using inside information to further a private gain.
- (4) Using my rank, title, or position for commercial purposes.
- (5) Using outside employment or participation in any activity that is incompatible with my duties or may bring discredit to the Navy.
- (6) Taking or using government property or services for other than officially approved purposes.
- (7) Giving gifts to my superiors or accepting them from my subordinates.
- (8) Conducting official business with persons whose participation in the transaction would be in violation of law.
- (9) Seeking ways to promote efficiency and economy in government operation and public confidence in its integrity.

I attest by my signature that I will bring any questionable future decisions or actions that may place me in violation of the provisions of reference (a) to the attention of the proper legal authority or ethics counselor for prior review and proper disposition.

(Signed)  
(Position Title)

Copy to:  
(Appropriate Supervisor)